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Report on Government Financial Accountability for the 1999/2000 Fiscal Year

Province of British Columbia

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OFFICE OF THE
Auditor General
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LOCATION:
8 Bastion Square
Victoria, British Columbia
V8V 1X4

OFFICE HOURS:
Monday to Friday
8:30 a.m. - 4:30 p.m.

TELEPHONE:
(250) 387-6803
Toll free through Enquiry BC at: 1-800-663-7867
In Vancouver dial 660-2421

FAX: (250) 387-1230

E-MAIL: bcauditor@bcauditor.com

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OFFICE OF THE
Auditor General
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8 Bastion Square
Victoria, British Columbia
Canada V8V 1X4
Telephone: (250) 387-6803
Facsimile: (250) 387-1230

The Honourable Bill Hartley
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2000/01 Report 6: Report on Government Financial Accountability for the 1999/2000 Fiscal Year.

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
March 2001

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

101-03895/

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abbreviations used in this report

AcSB	Accounting Standards Board
BC	British Columbia
CICA	Canadian Institute of Chartered Accountants
CRF	Consolidated Revenue Fund
GDP	Gross Domestic Product
PCAs	Prepaid Capital Advances
PSAB	Public Sector Accounting Board
SUCH	School districts, universities, colleges and health authorities

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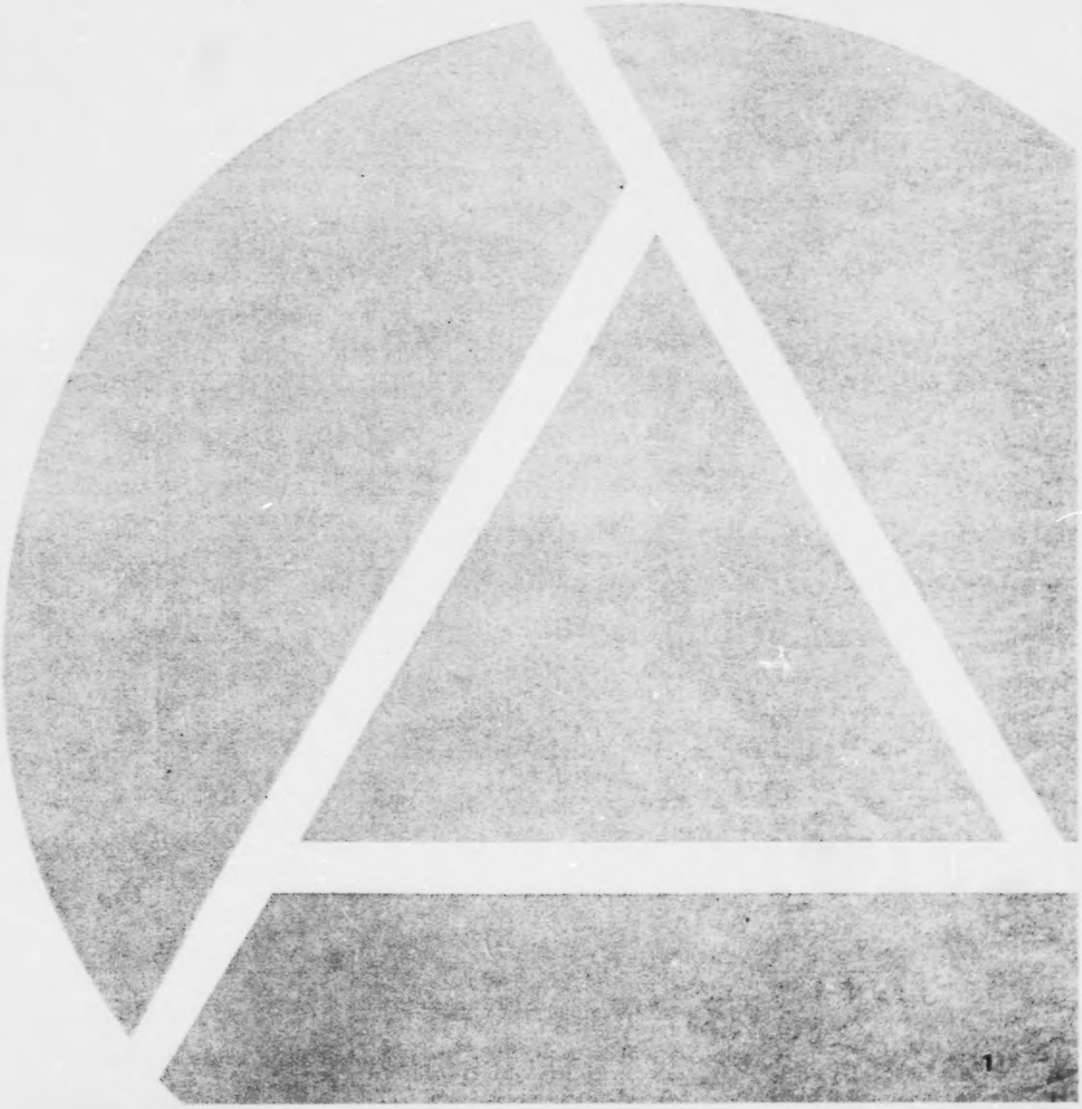
overview



overview

In May 2000, I was appointed the Auditor General of British Columbia. I have since identified four key priorities for my Office. These priorities are set out in my Report to the Legislative Assembly titled *Strategic Direction and Funding Proposal–February 2001.*

My first priority is to assist the government to ensure legislators receive complete financial information on the performance of government. One way I will do this is by assessing and reporting on whether the government's planned financial results and its actual financial results include the full nature and extent of government responsibilities.

The government's planned financial results are set out in the annual budget and estimates of revenue and expense. The government's actual financial results are set out in its summary financial statements.

In this report, I focus on the government's summary financial statements for the year ended March 31, 2000. Those statements are contained in the Public Accounts and were issued on August 15, 2000.

In this report, I have not commented on the government's financial plan for the year ending March 31, 2001. I have not done this because that plan was prepared prior to the Budget Transparency and Accountability Act. The government had little time to implement the significant changes required by that Act.

In the future, I plan to provide legislators with my assessment in a more timely manner. For example, in the fall of this year, I plan to report my assessment of the government's financial plan for the year ending March 31, 2002 as well as for the government's summary financial statements for the year ending March 31, 2001.

Improving Government Financial Accountability

When legislators passed the Budget Transparency and Accountability Act in July 2000, they sent the public a strong signal that significant change is to occur in the governance of public business in British Columbia. This Act holds much promise for meeting public expectations for accountability and transparency and for providing a more meaningful opportunity for legislators and the public to participate in government decision making. Much work will be required by many to meet these expectations.

In this report, I set out a financial framework I think government should use when providing BC legislators and citizens with financial information on the performance of government. This framework ensures the revenues and expenses of government are set out in a clear and complete manner. I recommend the government adopt the framework when preparing its annual financial plan and its summary financial statements. If this framework is put in place, the BC government will take an important step towards becoming a leader in government financial accountability in Canada.

Reporting on Financial Condition

My profession, through The Canadian Institute of Chartered Accountants, has identified several financial and economic indicators that can be used to help legislators and the public assess the financial condition of government. Those indicators are beginning to be referred to by market analysts and by governments in other jurisdictions.

In this report, I describe those indicators and recommend that the government report all of the indicators in its annual financial plan and its annual financial report. Currently, the government does report audited information on several of the indicators.

Reporting the Government's Full Responsibilities

For several years, my predecessor advised legislators that the government's summary financial statements do not provide a complete accounting of the government's full responsibilities. I agree with my predecessor and said so in my auditor's report on the government summary financial statements for the year ended March 31, 2000.

In its 1999/2000 summary financial statements, the government did not provide a complete accounting of all of its revenues, expenses, assets and liabilities. The government excluded significant amounts related to the health and education sectors. In its financial statements, the government argues that because health and education institutions are initially accountable to local boards, the financial results of those institutions should not be included the government's financial statements. In the statements, the government recognizes that such an exclusion is inconsistent with professional accounting standards.

I think most people agree the government is responsible for the overall state of finances of our systems of health and education. Financial statements should report on that responsibility.

A government may—as in the case of British Columbia —build an accountability structure that provides meaningful participation by boards that include locally elected officials. Such a structure helps to ensure citizens can scrutinize the performance of each institution. However, the existence of such accountability structures does not mean that the government is not accountable for the state of finances of the overall system of health and education. If the government is not accountable for this, then who is?

I recommend the government include in its annual financial plan and its annual summary financial statements the revenues, expenses, assets and liabilities relating to all of its responsibilities including those pertaining to the health and education sectors.

Reporting on Physical Assets

I am pleased to advise legislators that the government is reaching the final stages of recording all of its physical assets in its financial statements. This initiative will help ensure legislators and the public receive important information on the state of the public's valuable infrastructures of roads, buildings and equipment.

Keeping track of the cost of physical assets within financial statements helps legislators assess the extent to which infrastructures are being built up or worn down. Recording the cost of physical assets as part of a government's annual expenses provides more rigorous program cost information and facilitates better management of a valuable public resource.

Government Accounting Policies

Except for certain significant policies, the government has adopted generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants (CICA).

In deciding how best to apply those principles, judgment is required. In some cases, a government may choose to adopt practices that are leading edge and in advance of recommendations developed by the CICA. In such circumstances, discussions are held with my Office to determine how best to adopt such practices.

However, it is not appropriate to adopt practices that are clearly contrary to generally accepted accounting principles. In this report, I ask that consideration be given to amending the Budget Transparency and Accountability Act to prevent unwarranted departures from the principles recommended by The Canadian Institute of Chartered Accountants.

Other Matters

In this report, I also comment on other issues as they relate to our audit of the government's summary financial statements and the financial statements of other Crown corporations and agencies. My comments relate to matters such as pension costs and post-employment benefits, the Small Business Forest Enterprise Program, contaminated sites, BC Hydro's rate stabilization account, and the sale of BC Online's rights to access publicly owned information.

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I wish to acknowledge the valuable assistance my Office has received from senior government officials in our efforts to carry out the work described in this report. I also wish to acknowledge the hard work, professionalism and dedication of my staff.

Wayne Strelioff

Wayne K. Strelioff, CA
Auditor General

Victoria, British Columbia
March 2001

◆ ◆ ◆

Project team includes:

Senior Principal: Keyvan Ahmadi

Directors: Peter Bourne
Ada Chiang
Brian Jones
Don Kelso
Hemendra Shah

Project Leaders: Bill Gilhooly
Lisa Moore
Bruce Perry
John Sitch

Research: Arun Narula

part I:
explaining the government's business and finances

part I: explaining the government's business and finances

Introduction

The government's financial accountability documents must be clear and complete if the complex information they provide is to be understood. This is a matter that receives much attention by all governments and legislative auditors in Canada and other countries, and over the past several years the British Columbia government has accomplished a great deal in this area. However, in our view, the Summary Financial Statements of the Province still need further improvements to portray the full scope of the government's business and its financial condition, in a way that can be easily understood by an interested citizen.

The Summary Financial Statements are important documents of government's financial accountability. If governance of public affairs is to be open and deliberative, then legislators and the public must have a good understanding of the government's financial position, results of operations and trend in financial condition. For example, it is commonly believed that the aging population of British Columbia, as in other jurisdictions in Canada, will continue to put increasing pressures on the public purse. The legislators and the public are aware that the survival of government programs and the Province's social and economic health largely depend on the government's financial condition. As well, the citizens of British Columbia are interested in knowing how to gauge the financial health of the Province so that they can make their financial plans or, if need be, modify their expectations of government programs.

The Government of British Columbia believes that school districts, universities, colleges and health authorities (the "SUCH" sector) need not be included in its summary financial statements. We disagree. In our opinion, without these organizations—for which the government is responsible—the Summary Financial Statements will not be complete.

The Government of British Columbia is aware of these shortcomings in the Summary Financial Statements and has provided additional information in the Public Accounts to compensate for them. However, the decision to exclude the

SUCH sector, and the required effort of explaining the government's finances, were the sector included, has resulted in the Public Accounts containing complex supplementary schedules and unaudited reconciling statements that erode the clarity of the Summary Financial Statements.

Now that the Budget Transparency and Accountability Act in this Province has set the stage for improved openness in the government's budgeting and reporting, we believe it is also time to enhance the clarity and completeness of the financial statements. To do this it will be necessary for the government to fully apply the standards of financial accounting and reporting for senior governments, as developed by the independent and authoritative Canadian Institute of Chartered Accountants (CICA). We believe that the government has, with a few exceptions, applied the majority of these standards in preparing its 1999/2000 Summary Financial Statements.

A more complete set of financial statements will provide easier understanding of the government's business.

Understanding the Business of the Government

The business of government in British Columbia (as in other provinces) is complex and its effects are far-reaching. The breadth of activities stems from the government's authority to enact laws, borrow funds, collect taxes and provide services for the public good. Along with this authority, the government is responsible for acting in the best interest of its citizens in accordance with plans previously approved by the Legislative Assembly. For all the business it conducts on behalf of its citizens, it is expected that the government will be held publicly accountable.

The Public Sector Accounting Board (PSAB) of the CICA has defined the scope of such activities and refers to them collectively as the government reporting entity. According to PSAB, the senior government's reporting entity is composed of the organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. For many years we have been promoting improved government accountability on the basis of PSAB's definition of reporting entity.

Responding to our February 1999 *Review of the Estimates Process in British Columbia,* the government established the Budget Process Review Panel. The panel produced a report (the Enns Report) in September 1999. There, the panel also recommended that the government adopt PSAB standards, including the determination of the government reporting entity. As well, the Enns Report echoed our recommendations that the annual financial plans of the government cover the same organizations as are reported in the Summary Financial Statements of the Province.

Currently, there is a major difference between the government's view of the summary reporting entity and that we believe is defined by PSAB. The government selectively excludes school districts, universities, colleges and health authorities from its reporting entity. In our view, PSAB standards requires these organizations to be included.

The Government of British Columbia has jurisdiction over the provision of education and health care in this province. We believe it also has direct responsibility for them, since the public organizations providing these services are accountable to a minister of government. Furthermore, the government regularly makes strategic decisions on how the operating and capital resources available to school districts, universities, colleges and health authorities are to be used. For example, it decides whether to approve changes in the tangible capital stock of the public organizations providing education and health care services, it freezes advanced educational institutions tuition fees, and it negotiates teachers' pay.

In our view, the power to make such strategic decisions constitutes control as well as legal jurisdiction. Through these organizations, the government makes health care and educational services publicly available to British Columbians. Therefore, to reflect the complete picture of its taxpayer-supported business, it should include all the revenues, expenses, assets and liabilities of these organizations in its Summary Financial Statements.

Overall, the government is involved in conducting two types of business: that which is supported directly by taxes and other government revenues (taxpayer-supported), and that which is funded fully by selling goods and services to the public (self-supported). Exhibit 1.1 shows the four main components of government activities in these two types of public businesses.

- Consolidated Revenue Fund (CRF) (taxpayer-supported)
- Business-type, dependent Crown corporations (taxpayer-supported)
- School districts, universities, colleges and health authorities (SUCH sector organizations) (taxpayer-supported)
- Commercial Crown corporations (self-supported)

Exhibit 1.1

Components of Government Business

The four components of government's taxpayer-supported and self-supported business activities

Consolidated Revenue Fund

Revenue	Assets
- Expense	- Liabilities
= Net income [annual surplus/(deficit)]	= Equity [accumulated surplus/(deficit)]

Taxpayer-supported Crown Corporations

Revenue	Assets
- Expense	- Liabilities
= Net income [annual surplus/(deficit)]	= Equity [accumulated surplus/(deficit)]

SUCH Sector

Revenue	Assets
- Expense	- Liabilities
= Net income [annual surplus/(deficit)]	= Equity [accumulated surplus/(deficit)]

Self-supported Crown Corporations

Revenue	Assets
- Expense	- Liabilities
= Net income [annual surplus/(deficit)]	= Equity [accumulated surplus/(deficit)]

Key: Non-shaded boxes denote missing detailed information in the Summary Financial Statements of the government.

Source: Office of the Auditor General of British Columbia

A significant part of the taxpayer-supported operation of the government is carried out through the CRF. This includes the activities of government ministries and of special offices, accounts and funds.

The business-type taxpayer-supported Crown corporations include organizations that have been created outside of the CRF in order to operate government programs such as the B.C. Ferry Corporation or British Columbia Transit. The government subsidizes these business-like organizations from the CRF because they cannot directly generate enough revenue to cover their expenses.

The taxpayer-supported operations of the government also include organizations that make up the SUCH sector.

As at March 31, 2000, 10 Crown corporations and agencies were considered self-supported. These are:

- 552513 British Columbia Ltd. (majority shareholder in Skeena Cellulose Inc.)
- BCIF Management Ltd.
- British Columbia Hydro and Power Authority
- British Columbia Investment Management Corporation
- British Columbia Liquor Distribution Branch
- British Columbia Lottery Corporation
- British Columbia Railway Company
- Columbia Power Corporation
- Insurance Corporation of British Columbia
- Provincial Capital Commission

These businesses are defined as commercial enterprises because they currently are, or expect to be, capable of earning enough revenue from sources outside of government to cover all of their expenses.

The PSAB accounting standards for senior governments require that the annual financial transactions and balances of all taxpayer-supported organizations be fully consolidated on a line-by-line basis in the Province's Summary Financial Statements. However, the government is required to consolidate in those statements only the cost of holding a financial interest in self-supported commercial enterprises.

Each of the four types of organizations referred to in Exhibit 1.1, whether fully consolidated or recorded on the modified equity basis, has its own revenues, expenses, net income, assets, liabilities and equity. To demonstrate the complete picture of its stewardship responsibilities, the government's Summary Financial Statements should therefore report all of these financial elements. The Summary Financial Statements for the 1999/2000 fiscal year correctly show only the adjusted cost to the Province of holding an interest in commercial enterprises. The missing details (identified in non-shaded boxes of Exhibit 1.1) are reported in the schedules of the Summary Financial Statements. According to one schedule, the combined revenue, expense, assets and liabilities of the commercial enterprises were $10,380 million, $9,085 million, $18,814 million and $16,069 million, respectively, for the 1999/2000 fiscal year.

The details of the SUCH sector's financial information, and the consequence of excluding this information from the Summary Financial Statements, are reported in an unaudited schedule in the Public Accounts. According to that schedule referred to as the "Schedule of Impact of Changes in Reporting Entity on Balance Sheet and on Statement of Operations" the combined impact of the SUCH sector organizations on the Summary Financial Statements revenue, expense, assets and liabilities amounted to $1,881 million, $1,894 million, $4,718 million and $2,147 million, respectively, for the 1999/2000 fiscal year.

Putting the currently available (but fragmented) financial information together in the Summary Financial Statements improves the clarity and completeness of the government's financial reports. In Exhibit 1.2, using data from the fiscal year ended March 31, 2000 (as an example), we have done just that.

The statements presented in Exhibit 1.2 highlight the government's "net-liabilities," also referred to as "net-debt."

The "net liabilities"—the difference between the liabilities of the government which are directly related to its taxpayer-supported activities, and its total financial assets—is an important indicator of the government financial condition. It shows the extent of the need for the government to generate future revenue. (We discuss this indicator further (page 17) where we talk about understanding the governments' financial condition.)

The financial reporting framework outlined in Exhibit 1.2 is in keeping with the recommendations of PSAB. It is much clearer than the existing government reporting format for the following reasons:

- The Statement of Operations:
  - distinguishes between the results of the operations of the taxpayer-supported activities of the government, and those of the commercially run Crown corporations;
  - identifies the gross revenues and expenses from self-supported activities; and
  - clearly states the total surplus or deficit from all of government's operations in a fiscal year.
- The Statement of Financial Position shows:
  - the size of the taxpayer-supported liabilities and the extent of financial assets that could be used to reduce them in the future;

Exhibit 1.2

Proforma Statements of Operations and of Financial Position

Statement of Operations
for the Year Ended March 31, 2000
(Amounts in $ Millions)

	2000	1999
Taxpayer-supported:		
Revenue	25,180	23,563
Expense	26,436	26,257
Surplus/(deficit)	(1,256)	(2,694)
Self-supported:		
Revenue	10,380	9,434
Expense	9,085	7,914
Surplus/(deficit)	1,295	1,520
Total Surplus/(deficit) for the year	**39**	**(1,174)**

Statement of Financial Position
for the Year Ended March 31, 2000
(Amounts in $ Millions)

	2000	1999
Taxpayer-supported:		
Financial assets, other than equity in Commercial enterprises	16,941	15,251
Liabilities	41,287	39,307
	(24,346)	(24,056)
Self-supported:		
Assets	18,814	19,299
Liabilities	16,069	16,414
Equity in commercial enterprises	2,745	2,885
Net liabilities	**(21,601)**	**(21,171)**
Non-financial (capital) assets	19,232	18,763
Accumulated surplus/(deficit)	**(2,369)**	**(2,408)**

Source: Compiled by the Office of the Auditor General of British Columbia

- the stock of the tangible capital assets of the government that have service potential (but do not generate revenue directly);
- the extent of the assets employed by commercial enterprises of the government to generate revenue for the self-supported enterprises; and
- changes in the accumulated deficit resulting from the annual operations of the whole of government.

In our view, the result is a much clearer and more accurate picture of the government's full financial activities. Furthermore, because the framework involves no netting of revenues against expenses, or assets against liabilities, the statements do not require complex reconciling schedules and supplementary statements to explain missing details.

Recommendation

We recommend that the government prepare its Summary Financial Statements in a manner that includes the combined revenue, expense, assets and liabilities of the taxpayer-supported organizations and of the self-supported commercial enterprises in a complete and clear manner.

Indicators of Government Financial Condition

In addition to understanding the financial position and results of the government's operations, the public and the MLAs also need to have clear and complete information about the condition of the Province's finances. For this purpose, the government's financial plans and reports should also include indicators of government financial condition. Currently, except for certain audited debt measures and indicators published annually in the Public Accounts, such indicators are either missing or presented in a fragmented manner in different documents and reports, some unaudited.

A research group of the CICA developed the indicators of the government financial condition and published them in 1997. The research report, titled *Indicators of Government Financial Condition,* does not carry with it the same level of authority as the CICA's accounting recommendations. Nevertheless, senior governments and market analysts in Canada have started to use them to monitor the financial condition of the federal and provincial governments in respect to:

- ***Sustainability*** – the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy;

- *Flexibility* – the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden; and
- *Vulnerability* – the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

Since the 1992/93 Report on the Public Accounts, the Auditor General has promoted the reporting of the 10 key measures and performance indicators of the public debt, as shown in Exhibit 2.1. The Government of British Columbia is currently publishing this information in its Debt Statistics section of the Public Accounts, along with two key benchmarks it has adopted for managing the public debt. We believe that publishing this information has been useful in monitoring the public debt in this province, and encourage the government to continue providing it in its annual reporting on debt.

In this section of the report, however, we discuss the indicators of financial condition recommended by the CICA research group in 1997.

Sustainability Indicators

The sustainability of a government is defined in the CICA report as "the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy."

For many years, the term "net liabilities" has been used in British Columbia for what the CICA calls the "net debt"—both meaning the difference between the government total liabilities and its financial assets. In British Columbia, "net debt" has been widely used to mean the total borrowings of the government, less any monies set aside in sinking funds to repay those borrowings. The portion of the province's public debt that is expected to be repaid from taxation is referred to as "taxpayer-supported debt."

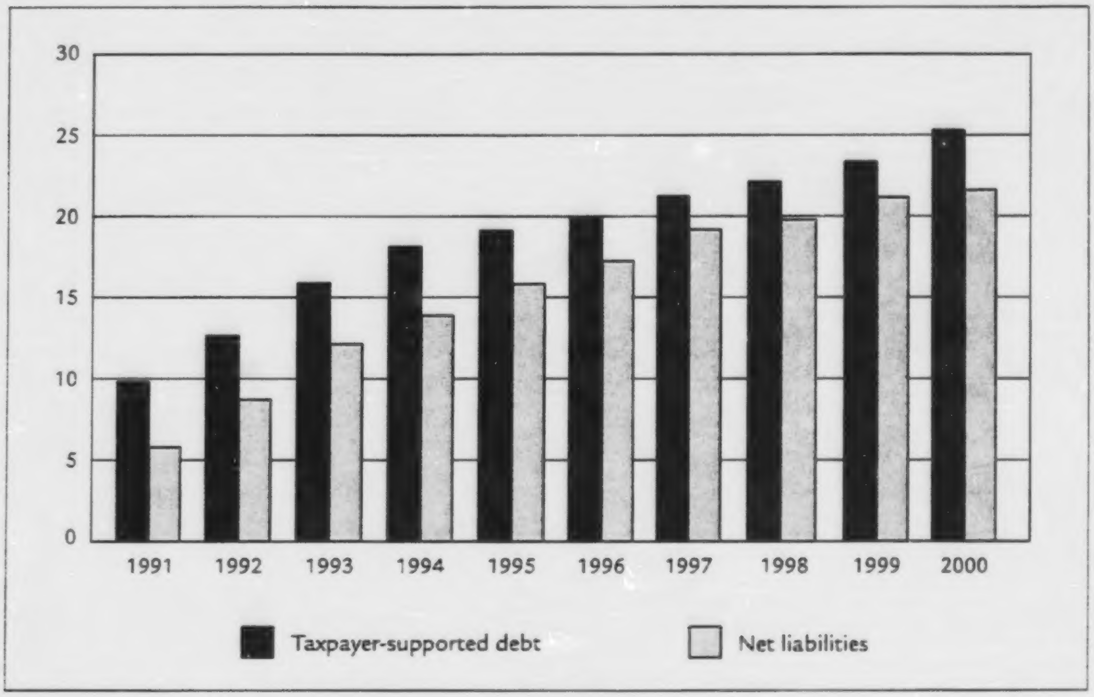
To avoid any confusion, we continue to use the terms "net debt" and "net liabilities" as they have been used in this province in the past. To put this into perspective, we have outlined in Exhibit 1.3 a comparison of the provincial ***taxpayer-supported debt*** to the ***net liabilities***, for the 10 years ending March 31, 2000.

In this report, unless specifically noted otherwise, the measures and indicators described are based on the complete reporting entity of the government (including the SUCH sector) and adjustments have been made to bring the revenues, expenses, assets and liabilities of government's commercial enterprises into the financial reporting. To make the multi-year comparison possible, we have used reasonable estimates where relevant information was not available.

Exhibit 1.3

Taxpayer-supported Debt Compared to Net Liabilities

Provincial taxpayer-supported debt compared to the government's net liabilities, 1991 to 2000 ($ Billions)



Source: The Public Accounts; Office of the Auditor General of British Columbia

There are two indicators associated with the sustainability of government:

- net liabilities to Gross Domestic Product (GDP); and
- change in net liabilities to GDP.

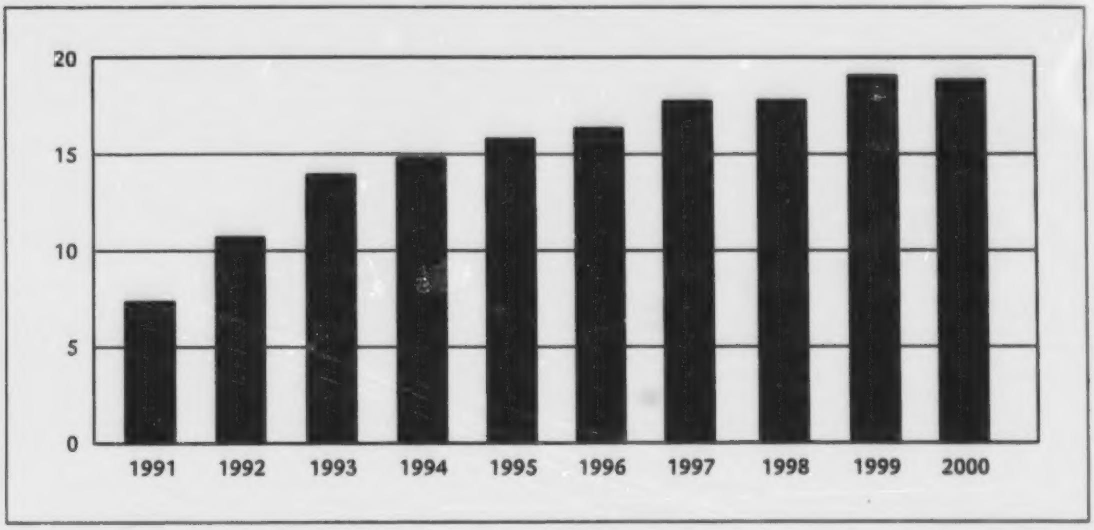
These two indicators measure the size of the annual and the accumulated surplus/deficit in relation to the size of the provincial economy. The indicators assume that as the economy grows, so may a government's ability to incur liabilities without unduly burdening the taxpayers or adversely affecting the economy.

A stable net liabilities to GDP ratio indicates that the rate of growth in the economy is similar to the rate of growth of the Province's "net liabilities." An increasing ratio would indicate that the government's current fiscal policies are

Exhibit 1.4

Net Liabilities to GDP

Net liabilities as a percentage of GDP in British Columbia, 1991 to 2000



Source: The Public Accounts; Office of the Auditor General of British Columbia; B.C. Statistics

increasing the burden on taxpayers. A declining ratio would signal the opposite.

There is no "correct" or optimal *net liabilities to* GDP ratio that a government should aim to achieve. Rather, both the ratio and its trends should be examined in conjunction with other financial indicators to obtain a realistic sense of the state of the government's finances. Exhibit 1.4 shows the 10-year trend of *net liabilities to GDP* for the Government of British Columbia.

The Summary Financial Statements of the Province are prepared on a full accrual basis of accounting. This means that tangible capital assets acquired in a year are recorded as the fixed assets in that year, and depreciated over their useful lives. Before changing to the full accrual basis of accounting, the government expensed the cost of assets in the year that assets were acquired. Some jurisdictions in Canada are still calculating their surplus/deficit that way, but British Columbia uses the former method. Measuring the surplus/deficit of a government may vary significantly, depending on which of the two bases is used.

If capital assets are fully expensed when acquired, a decrease in net liabilities over a year is the same as having an operating surplus in that year. In this regard, the annual *change in net liabilities to GDP* ratio is a useful indicator because it helps determine what annual results are required if a certain *net liabilities to GDP* ratio is to be maintained.

Exhibit 1.5 show this ratio in British Columbia for the past five years.

Flexibility Indicators

The term "flexibility" describes the degree to which a government can increase its financial resources in reaction to rising commitments, by either expanding its revenues or increasing its debt burden.

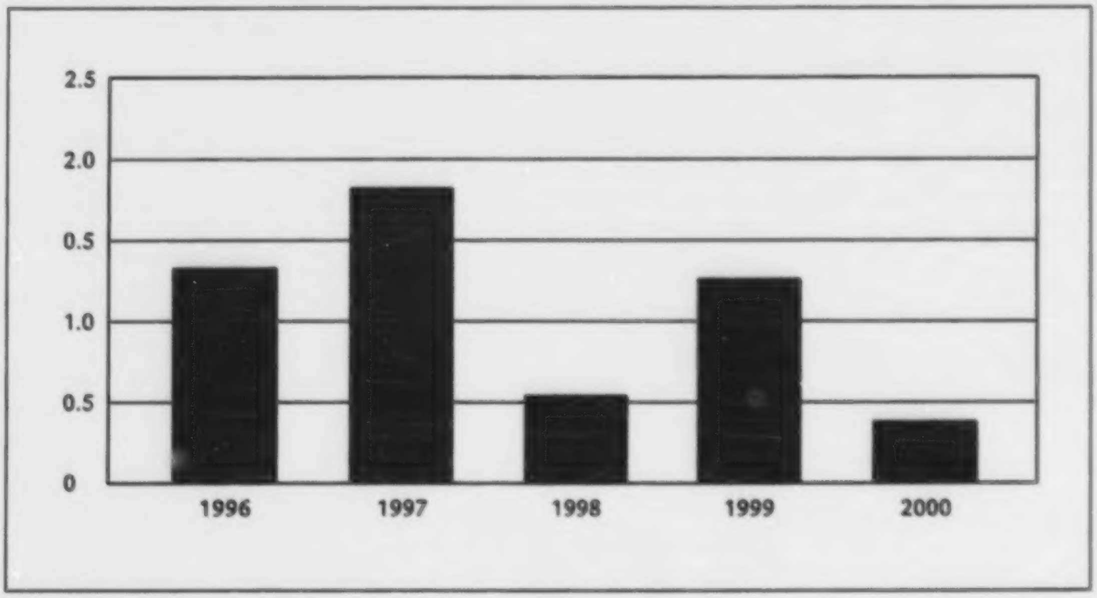
The following indicators point to the condition of flexibility in a government's finances:

- public debt charges to revenues;

Exhibit 1.5

Change in Net Liabilities to GDP

Annual increase in net liabilities as a percentage of GDP in British Columbia, 1996 to 2000



Source: The Public Accounts; Office of the Auditor General of British Columbia; B.C. Statistics

- changes in physical capital stock; and
- own-source revenue to GDP.

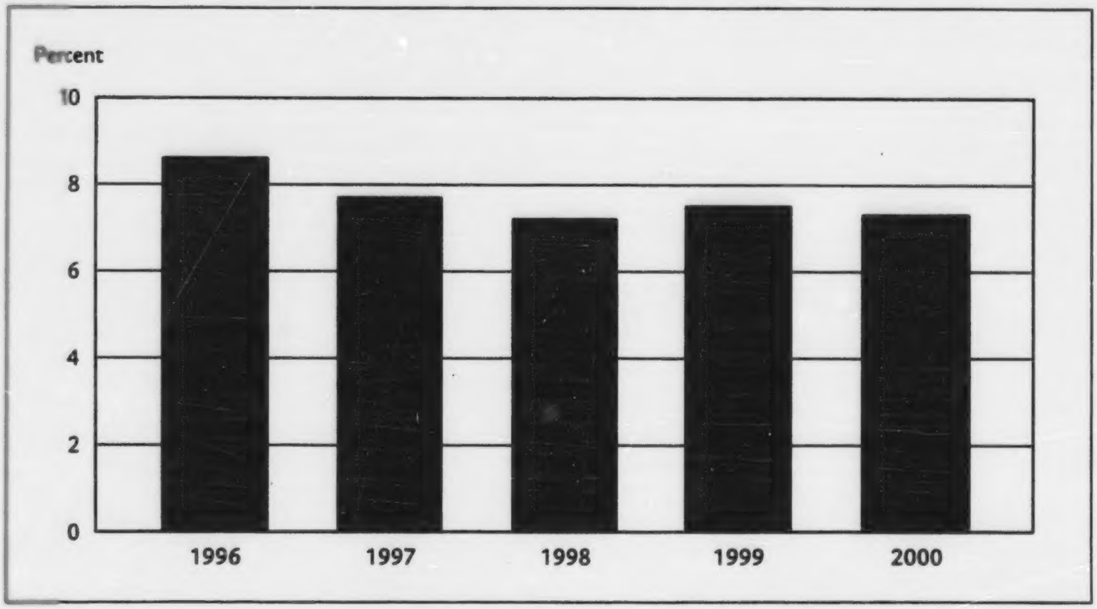
The indicator *public debt charges to revenues,* often referred to as the "interest bite," shows how much of each dollar of a province's total revenue is used to pay for servicing costs of total public debt. It is normally measured in the form of cents per dollar of revenue. If an increasing portion of the revenue of a province were used each year to pay interest on monies borrowed by the government, less money would be left for services to taxpayers. Thus, the government would have less financial flexibility.

In British Columbia, this ratio has been reported annually as part of the government's Debt Statistics reporting. Exhibit 1.6 shows a five-year graph of the *public debt charges to revenues.* The trend on the interest bite for British Columbia has remained fairly constant over the last five years.

Exhibit 1.6

Public Debt Charges to Revenues (the "Interest Bite")

Debt interest expense as a percentage of total provincial revenue, 1996 to 2000



Source: The Public Accounts; Office of the Auditor General of British Columbia

The indicator *changes in physical capital stock* reflects the net amount of spending on infrastructure and other capital items by government. It is measured as the percentage change in the net book value of physical assets (cost less accumulated depreciation).

Government must properly develop and maintain adequate infrastructure across the province. Any deferring of expenditures on maintenance can lead to the need for expensive corrections at a later date—and such strain on future resources reduces the flexibility of government to provide other services.

It was only five years ago when the Government of British Columbia decided to gradually treat the cost of physical assets as capital rather than operating expense. And it was only in the last year that the book values of publicly owned tangible capital assets were substantially identified and recorded on the statement of financial position of the government as physical assets. The necessary historical cost data for properly determining the annual measures of this indicator are not readily available, though the government does record the tangible capital assets it acquires each year. Thus, the annual percentage *changes in physical capital stock* of the provincial government from 1991/92 to 1999/00 (shown in Exhibit 1.7) is based on our best estimates.

Own-source revenue to GDP represents the extent to which the government is taking income from its own economy in the form of taxation revenue and user fees. Typically, own-source revenue is all revenue other than federal transfers. This indicator measures the percentage of revenues that a government collects directly from the value of the provincial economy.

Exhibit 1.8 shows the ratio of own-source revenue to GDP for the five years ending March 31, 2000.

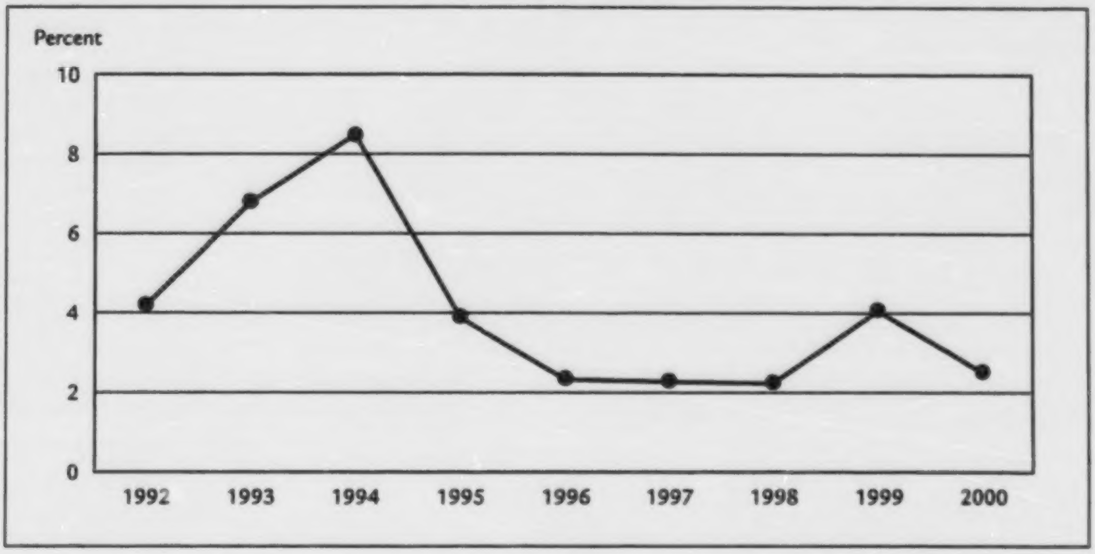
The table below shows details of own-source revenue used to calculate this indicator for the last five years (in $ millions).

Own-source revenue	1996	1997	1998	1999	2000
Taxation	12,826	13,463	13,551	13,620	13,796
Natural resources	2,478	2,671	2,681	2,015	2,821
Commercial enterprises	7,968	7,884	8,284	9,434	10,380
Other	4,699	4,932	5,290	5,530	5,708
Total	**27,971**	**28,950**	**29,806**	**30,599**	**32,705**

Exhibit 1.7

Changes in Physical Capital Stock

Annual percentage change in the net book value of capital assets, 1992 to 2000

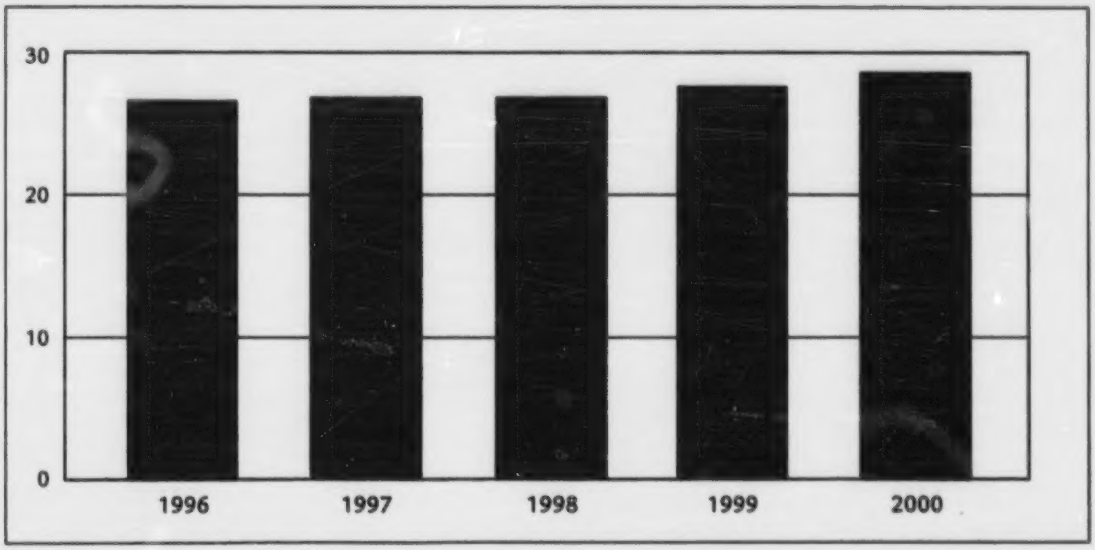


Source: The Public Accounts; Office of the Auditor General of British Columbia

Exhibit 1.8

Own-source Revenue to GDP

Provincial revenue, net of federal transfers, as a percentage of GDP in British Columbia, 1996 to 2000



Source: The Public Accounts; Office of the Auditor General of British Columbia; B.C. Statistics

Vulnerability Indicators

The term "vulnerability" is used to indicate the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

Although there are five indicators associated with the vulnerability of government, only three are relevant to provincial governments. These are:

- government-to-government transfers to own-source revenue;
- foreign-held government debt to net government debt; and
- foreign currency debt to government net liabilities.

The idea behind this set of indicators is that funds obtained from federal or international sources (either from government transfers or borrowing) are not considered to be as controllable as revenue generated within a province. Own-source revenue is more controllable by a government through tax legislation, the changing of fees and licences, or the imposition of new fees and licences.

Government-to-government transfers to own-source revenue compares federal government transfers to revenue raised through provincial taxation, fees, licences and earnings of a provincial government's commercial enterprises. Any increase in the ratio may denote a higher dependence of a province on the federal government as a funding source. Because provinces do not normally control federal decisions, an increase in their dependence will likely add to their financial vulnerability.

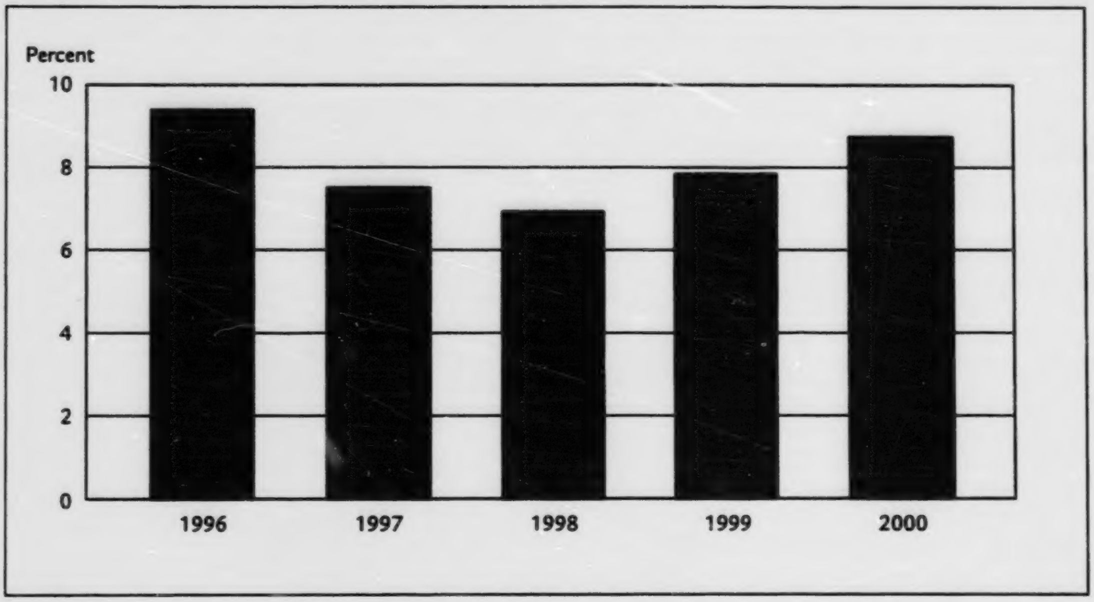
Exhibit 1.9 shows the percentage of the government-to-government transfers to own-source revenue for British Columbia, for the five years ending March 31, 2000.

The indicator *foreign-held government debt to net government debt* measures the level of dependence of a provincial government to foreign lenders. However, because there are no restrictions on who purchases government securities from the initial buyers (who are almost exclusively agents), governments in Canada can only keep record by the domain of initial buyers. Consequently, we do not consider this indicator to be a primary measure of dependence. On the other hand, tracking monies borrowed by the government in currencies other than the Canadian dollar is important because of the uncertainties associated with exchange rate when repayment comes due. Therefore, foreign currency debt

Exhibit 1.9

Government-to-government Transfers to Own-source Revenue

Federal transfers as a percentage of all other government revenue, 1996 to 2000



Source: The Public Accounts; Office of the Auditor General of British Columbia

to government net liabilities seems more suitable to a province's affairs because it shows the degree of vulnerability of a government's public debt position to swings in foreign currency.

To minimize the vulnerability to foreign currency swings, the Government of British Columbia has entered into derivative contracts such as interest rate swaps, currency swaps and forward contracts. These contracts ensure that debt repayments are fixed in Canadian dollars. For many years, information concerning public debt issued in foreign currencies has been included in a note to the government's financial statements. The note discloses any "hedging" through foreign currency derivative contracts.

Exhibit 1.10 shows the non-hedged taxpayer-supported foreign currency debt as a percentage of the net liabilities of the Province of British Columbia, for the five years ending March 31, 2000.

Comments

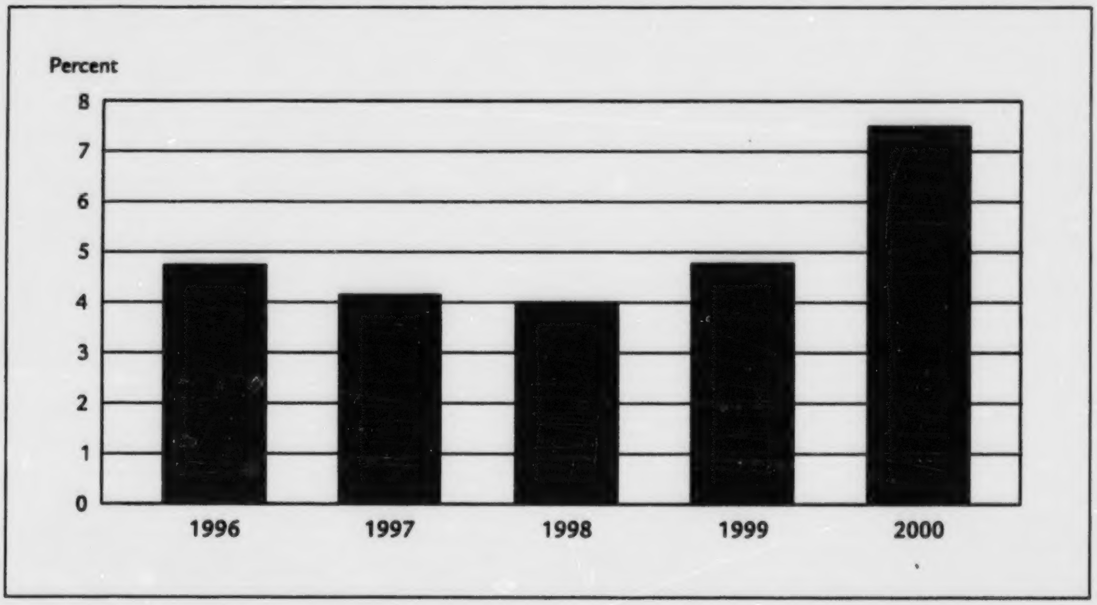
Indicators of financial conditions of a government are useful only if they were prepared on a consistent basis over a reasonably long period of time. Referring to an individual indicator, based on a single year's measurement, will have little relevance as a tool for monitoring provincial financial well-being. However, using all the indicators together can help a government strengthen its accountability to its citizens.

We believe that forecasting indicators of financial condition and measuring and reporting them should be an integral part of the financial accountability process of the Government of British Columbia.

Exhibit 1.10

Foreign Currency Debt to Government Net Liabilities

Non-hedged taxpayer-supported foreign currency debt as a percentage of net liabilities, 1996 to 2000



Source: The Public Accounts; Office of the Auditor General of British Columbia; Ministry of Finance and Corporate Relations

Recommendation

We recommend that the government measure and report on all the following indicators of financial condition in a statement included in the Public Accounts:

- ***net liabilities to Gross Domestic Product (GDP)***
- ***change in net liabilities to GDP***
- ***public debt charges to revenues***
- ***changes in physical capital stock***
- ***own-source revenue to GDP***
- ***government-to-government transfers to own-source revenue***
- ***foreign currency debt to government net liabilities.***

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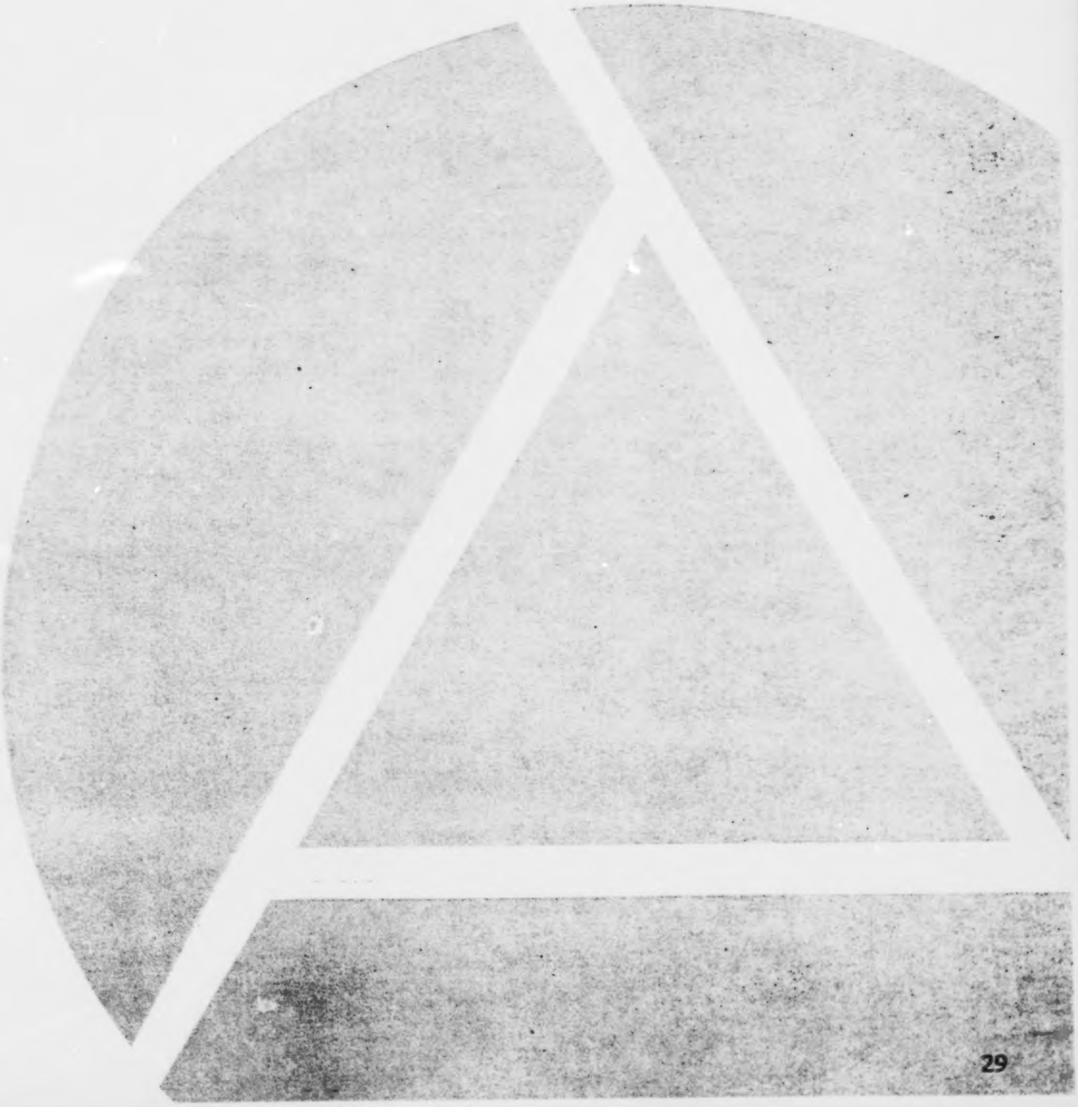
part II:
comments on
provincial public debt



part II: comments on provincial public debt

The term "total public debt" refers to the outstanding balances of all monies borrowed or guaranteed by the Government of British Columbia, less monies set aside in sinking funds for the purpose of repaying the borrowed sums. The government has issued notes and debentures for significantly all its borrowings. Each year since 1993, we have commented on the Province's public debt and the key measures and indicators of it. The total public debt is a significant component of the government's financial statements and we believe our comments have been useful in helping the Members of the Legislative Assembly and the public better understand issues related to it.

The total public debt of the Province of British Columbia was $34.6 billion at March 31, 2000. This is equal to approximately $8,600 for each person living in the province. By comparison, 20 years ago the total public debt was about $8 billion. Since then, it has increased every year except for the period of 1988 to 1990.

Based on the government's March 2000 estimates, the total public debt at the 2000/2001 year-end was to be $36.9 billion. However, with the release of the government's second Quarterly Report as at September 30, 2000, the public debt will, it is estimated, decline by $0.4 billion to approximately $34.2 billion as at March 31, 2001.

Over the last several years, the government has improved its reporting of debt, both within the Public Accounts and in other publications. It has annually produced a report on debt since the 1994/95 fiscal year. That report, first titled "Debt Management Progress Report," is now referred to as "Debt Statistics." Although some debt information is also contained in other government publications, the annual Debt Statistics report remains the main source for information on provincial debt. Debt Statistics 1999/2000 was published along with the Public Accounts in August 2000. The audited section of this report is also included in the Public Accounts.

Public Debt Measures and Indicators

In the annual Debt Statistics report, the government details a variety of matters related to provincial debt. These matters address, in part, key benchmarks to help the public better understand provincial debt and its fiscal impact. The 10 key measures and reporting performance indicators that the Auditor General identified in 1992/93 as being necessary in accountability reporting on public debt are summarized in Exhibit 2.1.

For the last few years, a number of the measures and indicators published by the government have been slightly different in amount from those included in our comments. The reason is that the government uses (as a basis for its calculation) its Summary Financial Statements, in which the school districts, universities, colleges and health care authorities (SUCH sector) are excluded. In our opinion, the Summary Financial Statements, as well as the Debt Statistics report, should include the SUCH sector. However, except for the "debt to revenue" ratio, exclusion of this sector from the government reporting entity has not resulted in a significant difference in the reporting of debt measures and indicators.

We discuss here the 10 debt measures and indicators, under the following group headings:

- Total Provincial Public Debt
- Financial Well-being of the Province
- Cost of Debt Servicing
- Changes in Public Debt

Exhibit 2.1

Measures and Indicators of Provincial Public Debt

1. Total provincial public debt
2. Debt to revenue
3. Debt per capita
4. Public debt to Gross Domestic Product
5. Interest bite
6. Total cost of debt servicing
7. Rate of interest
8. Sources of borrowing
9. How debt changed
10. Why debt (and the operating deficit) changed

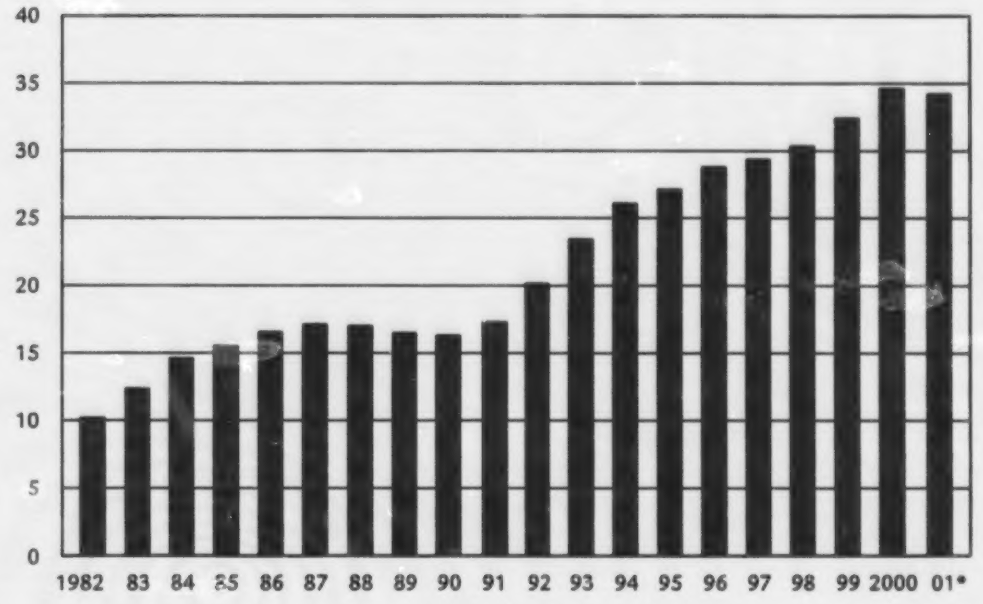
Total Provincial Public Debt

The first measure of provincial debt is the total provincial public debt. The total debt of the Province of British Columbia increased from $32.4 billion in 1999 to $34.6 billion in 2000, an increase of $2.2 billion (6.8%) in one year. However, Debt Statistics 1999/2000 reports total debt to be $34.2 billion as at March 31, 2000. The difference between the two amounts is due to $0.4 billion of additional debt having been borrowed in the SUCH sector. Exhibit 2.2 shows the total provincial debt for the 20 years ending March 31, 2001 (figures for the year 2001 are based on the government's second Quarterly Report, April to September 2000).

Exhibit 2.2

Total Provincial Public Debt

Total debt for the 20 years 1982 to 2001 ($ Billions)



*Estimate based on government's second quarter report, September 2000

Source: The Public Accounts; Ministry of Finance and Corporate Relations

The total debt of the Province is composed of amounts borrowed for the operating and capital purposes of government ministries, Crown corporations and other public organizations, for the "warehouse borrowing program" (having funds on hand for future needs), and includes third-party debt guaranteed by the government. Exhibit 2.3 shows the debt composition as at March 31, 2000. The total provincial debt at that date was $34.6 billion, and consisted of the $33.5 billion in debt reported in the Summary Financial Statements, together with $0.6 billion in additional debt of "government enterprises," $0.1 billion in third-party guaranteed debt, and $0.4 billion in debt of the SUCH sector.

The Debt Statistics report provides a breakdown of total public debt between taxpayer-supported debt and self-supporting debt. Most of the key indicators of provincial debt are presented by the government for both the total and taxpayer-supported debt.

Two important indicators of trend in provincial debt are "debt to revenue" and "debt per capita."

Debt to Revenue

The *debt to revenue* indicator is calculated as the ratio of debt outstanding at year-end to revenue from all sources for that year. It indicates how many years of revenue it would take to repay the provincial debt. Comparing this ratio for the 1998/99 fiscal year (98.2%) to that for the 1999/2000 fiscal year (97.3%) shows that, during 1999/2000, the rate of increase in debt was lower than the rate of increase in revenue.

The total revenue figure we use to calculate the above ratio for 1999/2000 is approximately $1.9 billion larger than that used by the government to arrive at its 101.6% published ratio. The $1.9 billion reflects the additional revenue generated by the SUCH sector that the government does not take into account in calculating debt to revenue.

Debt Per Capita

As a performance indicator, the *debt per capita* shows the average amount of provincial debt owing by each British Columbian. It is calculated by dividing the total public debt by the population of the province.

Exhibit 2.3

Total Provincial Public Debt

Details of gross and net debt as at March 31, 2001 ($ Millions)

	Gross Debt	Sinking Funds & Unamortized Discounts	Net Debt	
Direct debt of Consolidated Revenue Fund				
Operating purposes	15,139	1,306	13,833	
Capital financing purposes	10,319	2,450	7,869	
				21,702
Debt of Warehouse Borrowing Program	1,357	37	1,320	
				1,320
Debt of government agencies[1]				
552513 British Columbia Ltd.[3]	280	-	280	
577315 British Columbia Ltd.[4]	62	-	62	
580440 British Columbia Ltd.[5]	3	-	3	
BC Transportation Financing Authority	1852	9	1,843	
British Columbia Assessment Authority	5	-	5	
British Columbia Buildings Corporation	735	120	615	
British Columbia Ferry Corporation	38	14	24	
British Columbia Housing Management Commission	62	-	62	
British Columbia Hydro and Power Authority	8,045	1,100	6,945	
British Columbia Liquor Distribution Branch	3	-	3	
British Columbia Railway Company	678	23	655	
British Columbia Transit	90	11	79	
Columbia Basin Trust	47	-	47	
Columbia Power Corporation	47	-	47	
Educational Institutions	217	40	177	
Homeowner Protection Office	32	-	32	
Improvement Districts	12	3	9	
Legal Services Society	1	-	1	
Pacific National Exhibition	7	-	7	
Pacific Racing Association	5	-	5	
Provincial Rental Housing Corporation	143	-	143	
Rapid Transit Project 2000 Ltd.	102	1	101	
Regional Hospital Districts	299	-	299	
School Districts	29	-	29	
Victoria Line Ltd.	3	-	3	
				11,476
Third-party guaranteed debt[1]				**98**
Total provincial public debt[2]				**34,596**

[1] Debt of government agencies and third-party guaranteed debt is extracted from the audited accounting records of the government as at March 31, 2000, where possible, or from the most recent financial statements of the agencies.

[2] Debt includes regular borrowings, notes payable, capital leases, mortgages and minority interests.

[3] This company owns shares in Skeena Cellulose Inc.

[4] This company owns shares in Western Star Trucks.

[5] This company provides funding to the Vancouver Trade and Convention Centre Authority.

Source: The Public Accounts; Ministry of Finance and Corporate Relations

Each British Columbian's share of the provincial debt increased from $8,102 to $8,600 between 1999 and 2000 (a change of 6.1%). This indicates that the rate of increase in debt was higher than the rate of increase in population. Exhibit 2.4 shows the debt per capita for the five years ending March 31, 2000.

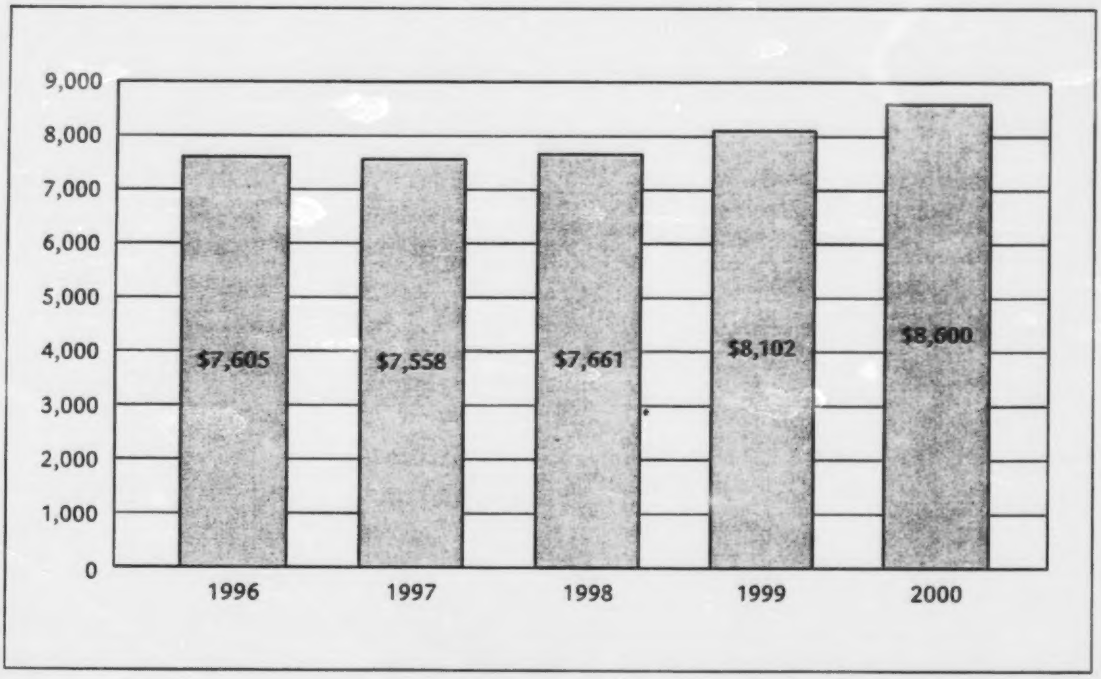
Financial Well-being of the Province

There are two indicators that measure the financial well-being of the Province: *public debt to Gross Domestic Product (GDP)* and *interest bite.*

Exhibit 2.4

Debt Per Capita

Average share of provincial public debt of a person living in British Columbia, 1996 to 2000



Source: The Public Accounts; Ministry of Finance and Corporate Relations; B.C. Statistics

Public Debt to Gross Domestic Product (GDP)

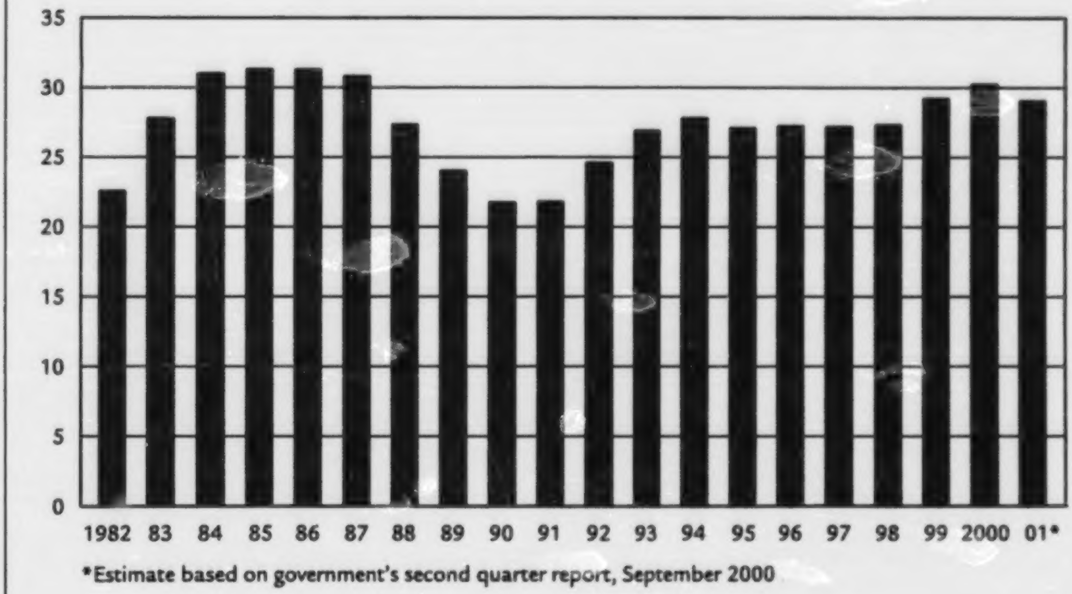
The Province's ability to service its public debt relates primarily to both its economy—as indicated by GDP—and the magnitude of the public debt. The *public debt to GDP* indicator compares the outstanding debt at year-end to the annual GDP of the Province. Exhibit 2.5 shows the total public debt as a percentage of GDP for the 20 years ending March 31, 2001.

The *public debt to GDP* ratio increased from 29.2% as at March 31, 1999, to 30.2% as at March 31, 2000. This shows that debt increased at a faster rate than the provincial economy grew during the 1999/2000 fiscal year. However, for the fiscal year ending March 31, 2001, based on the government's second Quarterly Report as at September 30, 2000, the ratio of debt to GDP is expected to decrease to approximately 29%.

Exhibit 2.5

Public Debt to Gross Domestic Product (GDP) Ratio

Provincial public debt as a percentage of British Columbia's GDP, 1982 to 2001



*Estimate based on government's second quarter report, September 2000

Source: The Public Accounts; Ministry of Finance and Corporate Relations; B.C. Statistics

Interest Bite

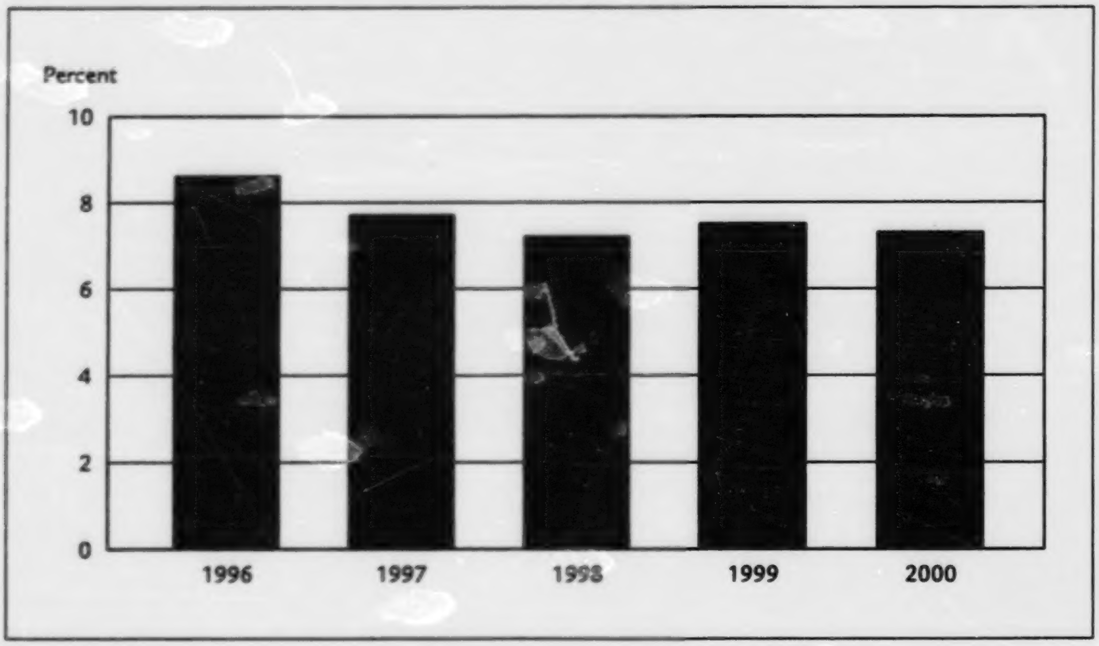
As more money goes to pay the interest on debt, less money is left over to pay for government programs such as health care, education and social services. This is referred to as the *interest bite.*

Exhibit 2.6 shows a five-year trend for the *interest bite.* We calculated the *interest bite* of the Province to be approximately 7.3 cents for the 1999/2000 fiscal year (compared to 7.5 cents in 1998/99). This means that the rate of increase in revenue has been a little higher than the rate of increase in debt servicing costs. The government has reported the interest bite for 1999/2000 as 7.5 cents per dollar. The difference is due to accounting for the increased revenue of the SUCH sector.

Exhibit 2.6

Public Debt Charges to Revenues (the "Interest Bite")

Debt interest expense as a percentage of total provincial revenue, 1996 to 2000



Source: Source: The Public Accounts; Office of the Auditor General of British Columbia

Cost of Debt Servicing

Two measures relate to the interest cost of public debt: *total cost of debt servicing* and *rate of interest.*

Total Cost of Debt Servicing

The *total cost of debt servicing*, or the Province's cost of borrowing, represents the interest paid on public debt, plus incidental costs associated with the administration of debt, less any investment income from sinking funds. It does not, however, include the costs of contributing to sinking funds or repayments of principal.

The Summary Financial Statements for the 1999/2000 fiscal year reported the annual debt servicing expense as $2,444 million (compared to $2,365 million in 1998/99). This is not, however, the Province's total cost of debt servicing because it does not include interest paid on monies directly borrowed by government enterprises and the SUCH sector. Adding these costs to those reported in the Summary Financial Statements results in a total cost of debt servicing of $2,588 million in 1999/2000 (compared to $2,477 million in 1998/99).

Rate of Interest

The *rate of interest* is calculated by dividing the total cost of debt servicing into the average balance of public debt outstanding during the year. It measures the effective rate of interest paid by the government on its borrowings and can be compared to market rates, to prior years, and to other jurisdictions.

Debt Statistics 1999/2000 reported the taxpayer-supported interest rate to be 7.4% for the fiscal year ending March 31, 2000 (compared to 7.7% for fiscal 1998/99).

Changes in Public Debt

The total public debt of the Province increased by $2.2 billion during the 1999/2000 fiscal year. To monitor changes in debt would require an analysis of the sources of borrowing and of how and why debt changed. A statement of changes in public debt should adequately explain why, and from whom, the Province has been borrowing.

Financing the annual deficit of the government through borrowing is of particular interest to the Members of the Legislative Assembly and the public. A government may also borrow to finance capital asset acquisitions, new investment and lending programs, or simply to have funds available for future needs (warehousing program).

Exhibit 2.7 shows the annual change in total public debt compared to the annual deficit or surplus. During 1997, the government, in addition to borrowing approximately $555 million, drew down $795 million of funds it had previously borrowed and kept as warehouse borrowing. Warehouse borrowing increased the total debt during 1996, but the funds were not put to use until 1997. For 1998, the increase in government debt included $112 million that the government had borrowed and warehoused previously; in 1999, the warehouse debt increased by an additional $446 million. During 1999/2000, there was additional warehouse program borrowing of $662 million. As at March 31, 2000, the balance of amounts borrowed and warehoused for use at a later date was $1,320 million.

The increase in warehouse debt of $662 million explains only a part of the difference between the increase in borrowing of $2.2 billion during 1999/2000 and the small accounting surplus in the same time period. Changes in the government's working capital and other non-cash accounting transactions also account for some of the difference. An overall reconciliation between the government's surplus for the year and the change in public debt during fiscal 1999/2000 can be found in the 1999/2000 Public Accounts (page 92). According to the reconciliation, in addition to increasing the warehouse debt, the government spent approximately $2.0 billion on the purchase of capital assets for taxpayer-supported activities.

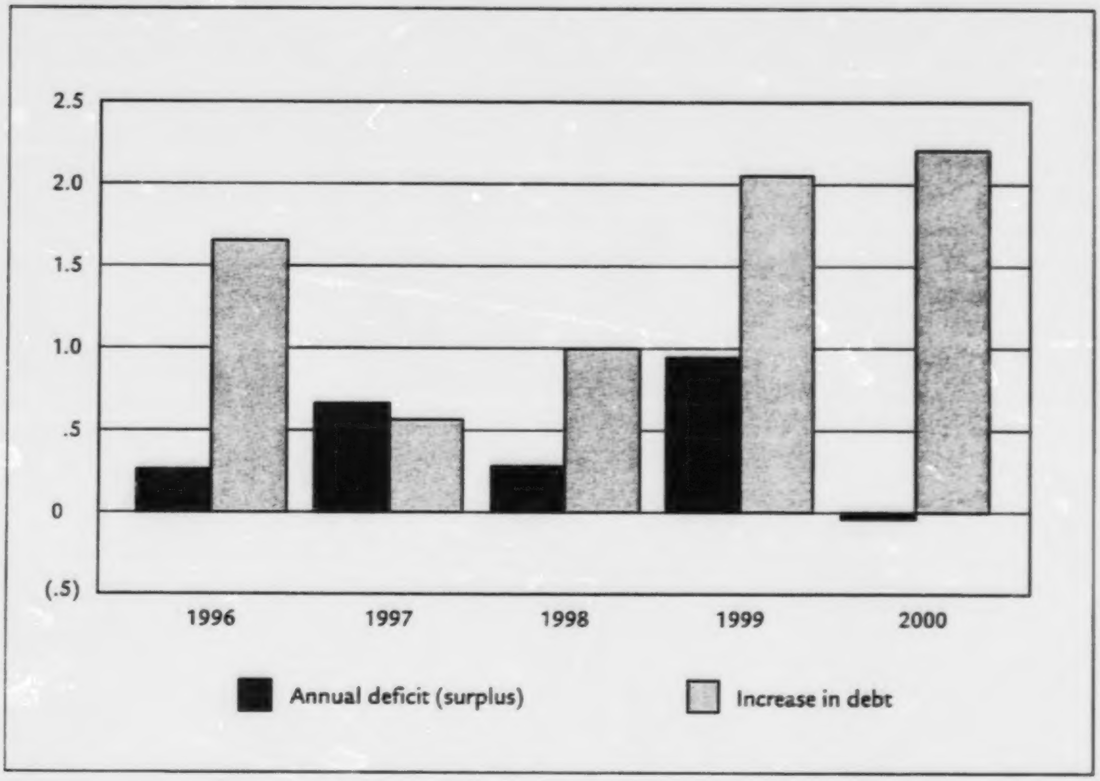
Exhibit 2.8 shows the details of the increase in public debt by organization. The largest change in debt of government agencies occurred in BC Ferry Corporation. The responsibility to repay $1,080 million of that corporation's debt was transferred to the CRF.

Debt Statistics 1999/2000 provides adequate information about the sources of borrowing during the year, and an analysis of changes in public debt during the year. We encourage the government to continue, and to improve upon, the reporting of those changes.

Exhibit 2.7

Deficit (Surplus) Compared to Increase in Debt

Annual deficit (surplus) compared to the annual increase in total provincial public debt, 1996 to 2000 ($ Billions)



Source: The Public Accounts; Office of the Auditor General of British Columbia

Exhibit 2.8

Changes in Total Provincial Public Debt

Detailed list of change in total provincial public debt in the 1999/2000 fiscal year ($ Millions)

	Debt as at March 31, 2000	Debt as at March 31, 1999	Increase/ (Decrease) in Debt
Direct debt of Consolidated Revenue Fund			
Operating purposes	13,833	12,190	1,643
Capital financing purposes	7,869	6,999	870
	21,702	**19,189**	**2,513**
Debt of Warehouse Borrowing Program	**1,320**	**658**	**662**
Debt of government agencies			
552513 British Columbia Ltd.[1]	280	221	59
577315 British Columbia Ltd.[2]	62	-	62
580440 British Columbia Ltd.[3]	3	29	(26)
BC Transportation Financing Authority	1843	1,433	410
British Columbia Assessment Authority	5	4	1
British Columbia Buildings Corporation	615	715	(100)
British Columbia Ferry Corporation	24	972	(948)
British Columbia Housing Management Commission	62	44	18
British Columbia Hydro and Power Authority	6,945	7,474	(529)
British Columbia Liquor Distribution Branch	3	3	-
British Columbia Railway Company	655	607	48
British Columbia Transit	79	59	20
Columbia Basin Trust	47	47	-
Columbia Power Corporation	47	47	-
Educational Institutions	177	175	2
Homeowner Protection Office	32	11	21
Improvement Districts	9	4	5
Legal Services Society	1	-	1
Pacific National Exhibition	7	-	7
Pacific Racing Association	5	5	-
Provincial Rental Housing Corporation	143	139	4
Rapid Transit Project 2000 Ltd.	101	57	44
Regional Hospital Districts	299	318	(19)
School Districts	29	27	2
Victoria Line Ltd.	3	3	-
	11,476	**12,394**	**(918)**
Third-party guaranteed debt	**98**	**149**	**(51)**
Total provincial public debt	**34,596**	**32,390**	**2,206**

[1] This company owns shares in Skeena Cellulose Inc.
[2] This company owns shares in Western Star Trucks.
[3] This company provides funding to the Vancouver Trade and Convention Centre Authority.

Source: The Public Accounts; Ministry of Finance and Corporate Relations

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part III:
report on the
1999/2000 public accounts

part III: report on the 1999/2000 public accounts

Introduction

This report contains comments and observations arising from the Auditor General's audit of the financial statements of the Province for the fiscal year ended March 31, 2000.

The Auditor General is required, under the provisions of the Auditor General Act, to examine the government's accounts and records and to report annually to the Legislative Assembly on the financial statements of the Province. In the report on the financial statements, the Auditor General must state:

- whether all the information and explanations required have been received;
- whether the statements present fairly the financial position, results of operations, and changes in financial position of the Province in accordance with the accounting policies stated in them; and
- whether the financial statements are on a basis consistent with that of the preceding year.

If the Auditor General is unable to express his or her opinion without reservation, the reason should be stated in the report on the financial statements of the Province.

The Auditor General must also make an assessment as to whether the financial statements of the Province are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure. If the assessment is that such was not the case, the Auditor General must explain how the financial statements would have been affected had the most appropriate basis been used.

The Auditor General is eligible to be appointed auditor of any Crown corporation, Crown agency or public body. While the Act does not specify what is required of the Auditor General in the conduct of such audits, the work is typically carried out in a manner and with the same objectives as those applied to the audit of the financial statements of the Province of British Columbia. Comments relating to the financial statement audits of various Crown corporations and other public bodies, in particular those for which the Auditor General is the appointed auditor, are included in this report.

As well, the Act directs the Auditor General to report on cases where: accounting records are not sufficient or properly kept; internal controls are not adequate to protect the assets of the Crown or ensure the proper collection of revenue and making of expenditure; or public money is spent for purposes other than those approved by the Legislature.

The Auditor General also has the mandate to comment on whether government programs are being administered economically and efficiently. This the Auditor General does periodically, in other public reports.

The Province's Public Accounts and Financial Statements

The Province's Public Accounts are an important component of the financial accountability discipline imposed on the government by the Legislative Assembly. These annual accounts are the primary means by which the government reports its stewardship of public funds to British Columbians.

The legal requirement for the Public Accounts, previously under the Financial Administration Act, is now set out in the Budget Transparency and Accountability Act—legislation that resulted from the recommendations made by the Budget Process Review Panel in September 1999. According to the Act, the Minister of Finance and Corporate Relations must release the Public Accounts by August 31—five months after the fiscal year-end. These accounts must contain specific information required by law, including the Province's annual financial statements. The government may, however, also include other information in the Public Accounts.

Public Accounts

The Public Accounts for the 1999/2000 fiscal year were tabled in the House on August 15, 2000, more than two weeks earlier than in the previous year. We commend the government for continuing to improve the timeliness of publishing this important document. For the 2000/01 fiscal year, the government is planning to issue the Public Accounts by August 1, 2001. We continue to support the government in this regard.

The 1999/2000 Public Accounts comprise the following:

- A summary overview of the Province's financial results and their reporting.

- Summary Financial Statements of the Province, as audited by the Auditor General.
- Unaudited information on the results of health and education organizations that were excluded from the Province's Summary Financial Statements.
- Unaudited financial information extracts relating to the activities of the Province's Consolidated Revenue Fund (CRF), reflecting the operations of government ministries and legislative offices. The extracts include a comparison of actual results of the fund operation with intended results as approved by the Legislative Assembly in the Estimates. The audited results of the CRF are included in the Province's Summary Financial Statements noted above.
- Overview information relating to provincial debt, including the audited Summary of Provincial Net Debt, Key Indicators of Provincial Debt and Summary of Key Benchmarks.

The 1999/2000 Public Accounts were published in one volume. They are also posted on the Ministry of Finance and Corporate Relations' web site at http://www.fin.gov.bc.ca.

The web site also provides the following additional information, much of which is required to be reported publicly:

- Consolidated Revenue Fund schedules, extracts of which are included in the Public Accounts, as noted above.
- A detailed schedule of payments to employees, suppliers and grant recipients.
- Financial statements of Crown corporations and agencies included in the Summary Financial Statements of the Province.
- Trust funds financial statements.
- Summaries of financial statements of corporations and agencies to which the Financial Information Act applies.

Summary Financial Statements

The Summary Financial Statements of the Province provide the most complete information about the operating results and financial position of the Province of British Columbia. A copy of these statements, together with the Auditor General's report on them, appears in Appendix C of this report.

The Summary Financial Statements consolidate the financial position and results of operation of the Province's General and Special Funds—collectively referred to as the Consolidated Revenue Fund—with the financial position and operating results of government entities owned or controlled by the Province (see pages 54 and 55 of Appendix C of this report for a complete list).

Consolidated Revenue Fund

Established by the Financial Administration Act, the Consolidated Revenue Fund (CRF) accounts for the financial activities of central government undertaken through ministries, special offices and other appropriations. All public money, other than trust funds administered by the government, must be paid into this fund. These activities are recorded in the General Fund of the CRF.

The CRF also includes the accounts of the Natural Resource Community Fund. This Special Fund was established in April 1992 under the Natural Resource Community Fund Act. Its purpose is to assist communities largely dependent on a single resource industry to adjust to severe economic declines that result in business closures or industry workforce reductions. The fund receives as income 0.5% of all revenues, other than fines, collected under a number of statutes dealing with natural resources. Its value is not to exceed $25 million, the amount at which it has remained over the last several years after transfers to the General Fund.

Government Entities

Depending on the nature of their operations, government entities are referred to as either "taxpayer-supported Crown corporations and agencies" (government organizations), "self-supported Crown corporations and agencies" (government enterprises), or "government partnerships."

Government organizations include corporations, associations, boards, foundations, societies and similar entities that are separated from the operations of central government mainly for administrative reasons. They also include subsidized corporations and partnerships that provide goods or services to the public. *Government enterprises,* on the other hand, earn or are expected to earn sufficient revenue from goods or services they provide to the public to pay for their operations. *Government partnerships* are contractual arrangements with parties outside the government, sharing in business goals, decision-making, monetary contribution, and benefits and risks.

In preparing the Summary Financial Statements, the government uses different methods to consolidate the results of government organizations, enterprises and partnerships:

- *Government organizations'* accounts are fully consolidated with those of central government, on a line-by-line basis and after being adjusted for compliance with the government's stated accounting policies.
- *Government enterprises'* accounts are consolidated on a modified equity basis. This means that the original cost of the government's investment in these business enterprises is adjusted each year to include net earnings or losses and other net equity changes of each enterprise. Government enterprises follow accounting policies that are generally accepted for commercial operations. This accounting treatment is accompanied by disclosure, in the notes to financial statements, of assets, liabilities, expense and revenue of government's commercial enterprises.
- Provincial interests in *government partnerships* are consolidated on a proportionate basis according to the Province's share of total contributions to the partnerships.

The composition of the government reporting entity was significantly expanded in the 1995/96 fiscal year so that universities, colleges and institutes, school districts, regional hospital districts, and public health care organizations were included in the Summary Financial Statements of the Province. But since then, the government has excluded their accounts from the Province's Summary Financial Statements. The government acknowledges that this practice is inconsistent with generally accepted accounting principles for senior governments, as recommended by the Canadian Institute of Chartered Accountants (CICA), and shows its associated financial impact in the Province's Summary Financial Statements separately, (as required by the Budget Transparency and Accountability Act). The effect of the exclusion on the 1999/2000 Summary Financial Statements of the Province is also explained in the reservation paragraph of the Auditor General's Report on those statements. This matter is discussed later below.

Other Comments

The Government of British Columbia is reaching the final stages of recording the stock of its physical assets on the summary balance sheet as "tangible capital assets" (not charging their cost to operation as it used to do in the past). This will help legislators and the public to be kept adequately informed of the extent to which infrastructure is being built up or worn down. It also illustrates the magnitude of government's responsibilities, including those for education and health.

It is widely believed that what gets measured gets managed better. Recording physical assets as fixed assets and charging only their depreciation expense to the operating cost facilitates a better financial management of government programs and makes them comparable from period to period.

Virtually all significant tangible capital assets of the Province, whether purchased or acquired through exchange of assets, have been capitalized. The government expects to have substantially completed recording its capital assets by the end of the 2001/02 fiscal year. Exhibit 3.1 shows the government's schedule for capitalizing the remaining tangible capital assets over the next two years.

Another change by the government, started in the 1999/2000 fiscal year, was to calculate its pension expense in accordance with the CICA. The new method is based on an estimate of earned employee benefits and net interest earnings of the pension plan rather than on cash payments.

"Net liabilities," the difference between the Province's liabilities and its financial assets (discussed in Part I of this report), is an important indicator of the Province's financial condition. Because the balance sheet no longer differentiates between "financial" and "non-financial" assets, a reconciliation is provided in Note 25 of the 1999/2000 Summary Financial Statements to show the Province's net liabilities at the end of the fiscal year.

Exhibit 3.1

Tangible Capital Assets Capitalization Schedule

The government plans to capitalize the remaining classes of tangible capital assets acquired by the Consolidated Revenue Fund by the year 2002

Fiscal Year	Asset Class
2000/01	Office Furniture and Equipment
2001/02	Dams and Water Management Systems Land Improvements

*Land, other than parkland, is capitalized along with its associated asset (e.g. buildings, roads).

Source: Memorandum of Understanding between Minister of Finance and Corporate Relations and the Auditor General

The Auditor General's Reports

Auditor's Report on Summary Financial Statements

On June 25, 2000, the Auditor General issued his auditor's report on the Province's Summary Financial Statements for the fiscal year ended March 31, 2000. The report appears with the Province's financial statements published in the Public Accounts.

In Appendix A of this report, we explain the format and content of a standard auditor's report as recommended by the CICA. Also included in the appendix are comments on the significance of the auditor's opinion and on the process employed in reaching that opinion.

The Auditor General's report on the Summary Financial Statements for the fiscal year ended March 31, 2000, was issued with one reservation, or qualification, as to the fair presentation of those statements. The following two paragraphs explain the reasons for, and the effect of, the reservation on the financial statements of the Province.

In note 1 to these financial statements, the Government reports that its stated accounting policies are not fully consistent with generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants. Consequently, these financial statements do not include the complete financial results of school districts, universities, colleges and institutes, public health care organizations and regional hospital districts.

Had a complete accounting been provided as at March 31, 2000 (as disclosed in note 1c), total assets would increase by $4,718 million ($4,467 million at March 31, 1999), total liabilities would increase by $2,147 million ($1,886 million at March 31, 1999), and the net deficiency would decrease by $2,571 million ($2,581 million at March 31, 1999). Similarly, for the year ended March 31, 2000, total revenues would increase by $1,881 million ($1,704 million for 1999), total expenses would increase by $1,894 million ($1,646 million for 1999), and the annual surplus would decrease by $13 million (deficit decrease of $58 million for 1999).

Further comments on the above-mentioned matter can be found on page 53 of this report, in the section titled "Changes in the Composition of the Summary Financial Reporting Entity."

In the 1999/2000 fiscal year, the Auditor General report also included a section entitled "Other Comments" to highlight other important matters concerning the Summary Financial Statements.

The Canadian Institute of Chartered Accountants recommends that government financial statements include a comparison of planned and actual revenues and expenses. Such a comparison provides an important basis for understanding, assessing and asking questions about a government's management.

In these summary financial statements, the Government provides a partial comparison of planned and actual revenues and expenses. This is reasonable for this year because the Government has only recently made the commitment to prepare and use a full financial planning framework that encompasses its overall operations.

The Institute also recommends that government financial statements include an accounting of net liabilities as an integral part of the balance sheet. Net liabilities is the difference between a government's liabilities and financial assets. Net liabilities is a key indicator of financial position because it provides important information on whether a government's future revenue requirements are increasing or decreasing as a result of past transactions and events.

In these financial statements, the Government has chosen to provide separate disclosure and reconciliation of its net liabilities rather than reporting this key indicator as an integral part of its balance sheet. As a result, the state of the Government's finances is more difficult to analyse and to compare from one period to the next and from one jurisdiction to another.

In these statements, the Government provides complex reconciling schedules to explain the consequences of not fully following generally accepted accounting principles for senior governments as recommended by the Canadian Institute of Chartered Accountants. I urge the Government to adopt the accounting principles recommended by the Institute. Following accounting principles recommended by an independent and authoritative standard-setting body is essential to the credibility and comparability of financial statements.

The Auditor General believes that the Summary Financial Statements (as presented by the government), together with information contained in his reservation paragraph and the comments noted above, would provide the reader of the statements with adequate information to better assess the financial position and results of operations of the Province.

Other Reports

While conducting our financial statement audits, we encounter numerous items that call for study and corrective action by ministries, central agencies and government entities. We deal with these matters by having direct contact with officials of these organizations.

Some issues, however, are considered of sufficient significance to warrant the attention of the Legislative Assembly and to be included in this report. Those arising as a result of our audit of the government financial statements appear in a section of this report entitled "Comments on Government Accounting Policies and Practices." Those relating to our audit of government entities are contained in a report section entitled "Audit of Financial Statements of Government Entities, Trust Funds and Other Organizations."

Changes in the Composition of the Summary Financial Reporting Entity

A detailed schedule of organizations and enterprises included in the government reporting entity is shown on pages 54 and 55 of Appendix C of this report. New organizations created and added to the reporting entity during the year were 577315 British Columbia Ltd., British Columbia Investment Management Corporation, Forensic Psychiatric Services Commission, and Organized Crime Agency of British Columbia Society. As well, the Private Post-Secondary Education Commission—an already existing organization—was added to the government reporting entity.

A brief description of these organizations and their operations is provided in the section "Audit of Financial Statements of Government Entities, Trust Funds and Other Organizations" of this report.

The government excludes from its summary reporting entity many education and health care organizations. If it did not, the reporting of the Province's financial position and operations for the fiscal year 1999/2000 would be affected as follows:

- The government has shown as assets a total of $6.5 billion classified as prepaid capital advances. These amounts relate to the unamortized balances of funds provided over the years to advanced education institutions, school districts and health care organizations for the acquisition of tangible capital assets. Had these organizations been included in the government reporting entity, the assets would not need to be reported (because they would represent inter-government transactions). Instead, the government financial statements would reflect the current book value of all tangible capital assets of these organizations. The tangible capital assets of educational and health care organizations currently not aggregated in the Summary Financial Statements amount to approximately $9.0 billion.

- Approximately $2.2 billion and $1.8 billion would be added to "other assets" and "other liabilities," respectively. These amounts would reflect cash and bank balances, accounts receivable, accounts payable and accrued liabilities of advanced education institutions, school districts and health care organizations at March 31, 2000.
- The net deficiency (accumulated deficit) of the Province would be reported at $2.4 billion, lower than necessary by approximately $2.5 billion.
- "Revenue" and "expense" of the government would both be larger by approximately $1.9 billion. These differences would take into account such revenues as tuition fees and patient charges that the educational and health care organizations collect to assist them in delivering their programs and services.
- The annual deficit would decrease by approximately $13 million.

Exhibit 3.2 summarizes the above differences and shows the significance of the information currently being excluded from the Province's financial statements.

Comments on Government Accounting Policies and Practices

Basis of Accounting

The Summary Financial Statements for the 1999/2000 fiscal year have been prepared in accordance with the government's stated accounting policies as established by Treasury Board. The Budget Transparency and Accountability Act (Sec. 9(e)) requires the Public Accounts to disclose any material variance of those policies from generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

As at March 31, 2000, note 1(c), entitled "Basis of Accounting" reported how the Summary Financial Statements were affected by the government using accounting policies that are not in accordance with generally accepted accounting principles for senior governments. The departures from the PSAB standards are:

- Exclusion of school districts, universities, colleges and health care authorities (SUCH sectors) from the reporting entity.

Exhibit 3.2

The Overall Effect of the SUCH sector in the Reporting Entity

Effect of expanding the government reporting entity to include health care organizations, regional hospital districts, universities, colleges and institutes, and school districts ($ Billions)

Condensed Summary Financial Statements
Province of British Columbia
March 31, 2000

Balance Sheet

	Existing[1]	Pro Forma[2]
Assets		
Other assets	14.8	17.0
Equity in government enterprises	2.7	2.7
Prepaid capital advances	6.5	–
Tangible capital assets	10.2	19.2
	34.2	38.9
Liabilities		
Other liabilities	5.6	7.4
Debt	33.5	33.9
	39.1	41.3
Net deficiency	(4.9)	(2.4)
	34.2	38.9

Statement of Operations

	Existing[1]	Pro Forma[2]
Revenue	24.5	26.4
Expense	24.5	26.4
Consolidated net expense for the year	–	–[3]

[1] Existing summary reporting entity comprising government organizations (excluding health care organizations, regional hospital districts, universities, colleges and institutes, and school districts) and government enterprises.

[2] The summary reporting entity as in (1) above, and including health care organizations, regional hospital districts, universities, colleges and institutes, and school districts.

[2] The consolidated net expense for the year (annual deficit) would decrease by approximately $13 million.

Source: The Public Accounts and financial statements of excluded organizations

- Recording amounts paid to the SUCH sector for capital asset acquisition as prepaid capital advances (PCAs).
- Capitalization of government-owned tangible capital assets.

Note 1(c) to the Summary Financial Statements explains that had the Summary Financial Statements included the SUCH sectors in the reporting entity, and had the statements been prepared on expenditure basis of accounting—where PCAs and tangible capital assets are charged to the fiscal year expenditure—the total assets would decrease by $14.5 billion, total liabilities would increase by $2.2 billion, and the net equity would decrease by $16.7 billion. The total revenue, total expense and annual surplus would decrease by $1.9 billion, $2.7 billion and $0.8 billion, respectively.

We recognize the need for the government to have some flexibility in implementing the PSAB standards. This flexibility, however, should only allow for use of emerging standards where they improve the presentation of financial information, and not where they lead to unfettered departure from generally accepted accounting principles.

Recommendation

We recommend that the government amend the Budget Transparency and Accountability Act so that it requires the government to establish its accounting policies in accordance with generally accepted accounting principles for senior governments in Canada.

Pension Expense

The government changed its accounting policy for pension costs and liabilities starting in its 1999/2000 financial statements. The new policy reflects the recommendations of PSAB.

Prior to the change, the government calculated its pension cost based on the annual cash contributions made by the Province into the plans, with some adjustments for future plans requirements. Under the new policy, pension cost is based on the annual accrued benefits earned by government employees, with adjustments related to the investment earnings of the plans. This method provides a better estimate of expected pension costs for the reporting period than did the previous method.

To date, the difference between cash contributions and the benefits earned by employees has not been significant. However, high earnings of plan investments in recent years have resulted in growing estimates of surpluses. Under the old accounting method, this would have resulted in a significant overstatement of the government's pension costs. The effect of the change is a $350 million reduction in the government's pension expense for 1999/2000.

We concur with this change in accounting policy.

Small Business Forest Enterprise Program

During the year 1999/2000, the government started recording, as cost of goods sold, certain costs it previously expensed in delivering the Small Business Forest Enterprise program (SBFEP). These costs include those for road building, timber development and marketing.

This change in accounting treatment was made retroactive to the 1995/96 fiscal year.

The net effect in 1999/2000 of the change in accounting is an increase in inventory by $134 million, an increase in the current year's surplus by $22 million, and a decrease in the accumulated deficit by $112 million.

We concur with this accounting treatment.

Tangible Capital Assets

Land Database

Until recently, the government treated the cost of physical assets as operating expense in the year it acquired them. Because they were fully expensed, the accounting records maintained no running total of the book value of these assets. The change that took place about five years ago in the accounting policy for physical assets requires that the historical costs of such assets be recorded as capital expenses, and that the cost be amortized over the useful lives of those assets. Since it has started capitalizing physical assets in 1996, the government has identified most of its physical assets, verified their existence and ownership of them, and recorded their historical costs (or an estimate of them).

In many cases, particularly for land, the determination of historical cost has proven to be difficult. One reason is that the land databases maintained by the Land Titles Office and the British Columbia Assessment Authority have not been designed to track the land acquired and owned by the Province. Another reason is that complete and accurate cost information is not often readily available.

To resolve this significant issue, the government decided (starting in the 1997/98 fiscal year) to capitalize land along with its associated asset. Given that the accounting standards for physical assets do not require Crown land to be capitalized, and that land purchased for resale has always been included as inventory in the financial statements of the Province, we believe the approach taken by the government is reasonable. In this way, the government has been able to record much of the land acquired by the government over many decades for highways, buildings and developing parks.

The government has committed itself to developing a special land database to give management proper access to sufficient accurate information about land owned by the Province. We understand that the government has started work in this area by initiating a data-sharing partnership with municipalities and utility companies.

Recommendation

We recommend that the government continue its efforts to develop a centralized database of relevant information on all land owned by the Province and, once the database is completed, maintain and update the information on a timely basis.

Liability for Post-retirement Benefits

Many retired members of the Public Service Pension Plan and other government-funded pension plans receive benefits paid for by their former employers. These benefits are over and above the amount retired employees receive as pension. For example, these employers may pay all or a portion of the pensioners' premiums for public health care plans. As an employer, the Province is responsible, under existing pension agreements, for paying the Medical Services Plan and Extended Health Care premiums for its current and retired employees. This fact is disclosed in the notes to the government's financial statements.

For a number of years, we have commented on the way the government records the Province's obligation for post-retirement benefits in the financial statements.

Currently, the cost of these benefits is recorded only when the benefits are actually paid. The liability for unpaid benefits earned by retired and current employees is not recorded in the Province's financial statements. We believe that post-retirement benefits earned by an employee who is a member of a statutory pension plan should be accounted for in the financial statements to the extent the Province is liable for. The government agrees that a liability for employee post-retirement benefits exists, but has not recorded it in the Province's financial statements.

The government said in the past that it was waiting for a more definitive accounting policy pronouncement from the CICA on how to value employee future benefits. In March 1999, the CICA issued new accounting standards for recording employee future benefits. As well, PSAB is moving to put similar standards in place for senior governments. These standards require the accrual and recording, over the term of employees' service lives, of all benefits—not only pension income, but also other benefits such as life insurance, medical and dental plans—earned by the employees.

Recommendation

We recommend that a reasonable estimate of post-retirement benefits for which the government is liable be included in the Province's financial statements.

Contingent Liability for Environmental Clean-up Costs

The Province is responsible for the restoration of a number of contaminated sites around British Columbia—an undertaking that could be very costly. Common examples of these sites are government highway work yards, gravel pits, forestry work camps, and forestry work yards. Common contaminants include gas, oil and chemicals.

For several years, the government has made financial provision in the Province's books for cleaning up and restoring provincial sites known to be contaminated. The balance of such provision at March 31, 1999, was $44 million. We noted that, at year-end, neither the Office of the Comptroller General nor ministries had carried out many procedures to determine whether this amount was a reasonable sum for cleaning up the sites identified.

The government explains, in a note to the Summary Financial Statements, that the lack of adequate evaluations has made it difficult to determine the amount of environmental clean-up liability remaining for other contaminated sites. However, through the British Columbia Buildings Corporation, efforts are now underway to review suspected provincial sites so that the extent of contamination can be assessed and the costs associated with the clean-up estimated.

Recommendation

We recommend that the government ensure that all contaminated sites for which the Province is responsible be identified and the level of contamination evaluated so that the total liability for restoring contaminated sites can be determined. The government should also establish formal procedures for reviewing annually the reasonableness of the environmental clean-up liability recorded in the Public Accounts.

British Columbia Hydro and Power Authority: The Rate Stabilization Fund

On March 30, 2000, British Columbia Hydro and Power Authority (BC Hydro) established a rate stabilization account to mitigate the impact of volatile earnings on consumers. The company transferred $129 million to that account in the 1999/2000 fiscal year.

In BC Hydro's financial statements for the year ended March 31, 2000, the transfer to the rate stabilization account was accounted for as a deduction from the company's income before arriving at the net income. This resulted in reporting a lower net income for the year, $416 million rather than $545 million.

Although BC Hydro is a Crown corporation and the Utilities Commission is a regulatory body, the two are related organizations subject to common control by the government. Thus, under the circumstances, we believe that the transfer of funds to the rate stabilization account should be regarded as voluntary appropriation from BC Hydro's retained earnings rather than an outgoing charge against its income.

In calculating the value of the Province's equity in BC Hydro, the government has adjusted the company's net income in the Summary Financial Statements to $545 million. We concur with the adjustment made in the financial statements because we believe treating the transfers to the rate stabilization account as an appropriation from corporate retained earnings reflect properly the underlying economic substance of the transaction.

Recommendation

We recommend that the government direct BC Hydro to review its accounting policies regarding the rate stabilization account transfer, to ensure the underlying economic substance of the transaction is properly reflected in the Corporation's financial statements.

Sale of the Right to Operate BC Online

During the 1999/2000 fiscal year, the Province sold MacDonald Detwiler and Associates (MDA) a 10-year right to operate BC OnLine. Prior to the $55 million sale, BC Online operated as an electronic information link between several provincial databases and the diverse users of this information on a fee-for-service basis. As a result of the sale contract, this service, which permits users to access such information as land titles and corporate registry data, will now be provided by MDA.

The government has recognized the $55 million sales price as revenue in its Statements of Operation for the 1999/2000 fiscal year. In our view, an estimated $20 million of this revenue should have been deferred and recognized over the term of the agreement.

We were unable to reach agreement on this accounting issue with the Office of the Comptroller General, partly because of the uncertainties inherent in the unique and complex nature of this agreement and partly because government accounting policies are not clear on how the sales to third parties of the right to access publicly owned intangible assets should be accounted for.

Recommendation

We recommend that the government improve guidance relating to the revenue recognition principles that apply when rights to access publicly owned information and other intangible assets are sold to third parties.

Accounting for Government Enterprises in Summary Financial Statements

On page 49, we defined "government organizations" and "government enterprises" and explained how their results are consolidated in the Summary Financial Statements. *Government organizations* are fully consolidated in the Summary Financial Statements, which means that all their revenues, expenses, assets and liabilities are aggregated on a line-by-line basis after they are adjusted for compliance with the government's stated accounting policies. *Government enterprises,* on the other hand, are recorded on the modified equity basis, meaning that the Summary Financial Statements include only the original cost of the government's investment in these entities, adjusted annually for their net earnings, losses and other equity changes.

We believe that information on financial position and operations of the government's commercial enterprises is important and should not be netted in the way it is currently done. One reason is that excluding these government enterprises from full consolidation in the Summary Financial Statements results in a significant amount of revenues, expenses, assets and liabilities under government stewardship not being aggregated. This hinders the proper evaluation of the full extent of the government's financial activities.

Another reason is that, although government commercial enterprises are expected to be self-sufficient and reliant on their capacity to do business, they are invariably also given responsibility to implement major public policies. Essentially this makes them equivalent to other government programs captured and reported in the Summary Financial Statements. For example, British Columbia Hydro and Power Authority, established in 1962 as a Crown corporation, has a corporate mission to provide integrated energy solutions to its customers in an environmentally and socially responsible manner. Similarly, the British Columbia Lottery Corporation, as an agent of the Crown, is the authority designated by the Province to conduct and manage lottery games.

Recording in the Summary Financial Statements only the adjusted value of the Consolidated Revenue Fund's investments in government commercial enterprises is inconsistent with the gross basis of accounting—a policy that has been adopted by the government and stated in the Province's financial statements.

Over the last few years, the government has changed the basis of consolidation for some entities that were formerly accounted for on a modified equity basis. For example, in previous fiscal years, the government consolidated the financial activities of British Columbia Ferry Corporation, British Columbia Assets and Land Corporation, and B.C. Community Financial Services Corporation on a line-by-line basis. The financial activities of other government enterprises, however, continue to be recorded on a modified equity basis on the grounds they do not depend on the government to subsidize their operations. These enterprises include a number of large corporations such as British Columbia Hydro and Power Authority, British Columbia Railway Company, and the Insurance Corporation of British Columbia.

While the accounting policy the government applies to its commercial enterprises is consistent with the current recommendations of PSAB, we believe that there is room—as we discussed in Part I of this report—for better disclosure of this type of government's business activities in its Summary Financial Statements.

Audit of Financial Statements of Government Entities, Trust Funds and Other Organizations

Changes in Government Entities

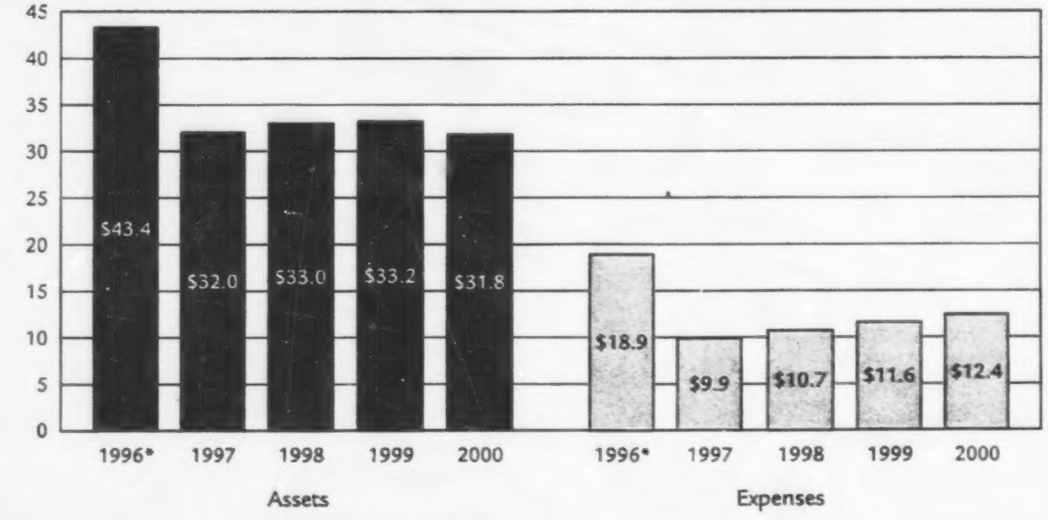
The Summary Financial Statements of the Province for the 1999/2000 fiscal year include the results of the financial activities and operations of 56 government organizations and enterprises (collectively referred to in this section as government entities). These entities are listed in Appendix B.

The assets and expenses of the 56 government organizations and enterprises mentioned above amounted to $31.8 billion and $12.4 billion, respectively. Exhibit 3.3 shows the changes in total assets and expenses of these government entities from 1996 to 2000. Not all of the assets and expenses of these entities are aggregated in the Summary Financial Statement of the Province. The reason is that, for some entities, only the investment cost and net earnings or losses are included.

Exhibit 3.3

Changes in Assets and Expenses

Assets and expenses of government entities, 1996 to 2000 ($ Billions)



*For 1996, entities in the education and health sectors were also included.

Source: Financial statements of government entities

Last year, the Province's financial statements included 55 such entities. The changes in the composition of the government reporting entity from last year are summarized earlier in this part of the report. Exhibit 3.4 provides a brief description of the organizations added to the reporting entity, and their operations.

Exhibit 3.4

Organizations Added to the Government Reporting Entity in 1999/2000

Brief description of organizations and their operations

577315 British Columbia Ltd.

577315 British Columbia Ltd. was incorporated on December 29, 1998, under the Company Act of British Columbia. Its objective was to purchase and hold $60 million equity in redeemable, convertible retractable preferred shares of Western Star Trucks Holdings Ltd. (Western Star).

The corporation is accountable to the Minister of Employment and Investment, and has two board members who are provincial government employees. The corporation does not have its own staff. The Ministry of Employment and Investment provides the corporation with administrative and accounting services at no cost.

Subsequent to March 31, 2000, Western Star was sold. As part of the sales agreement, the government converted $20 million of its preferred shares into common shares of Western Star, and sold those shares. Western Star redeemed the remaining $40 million in preferred shares at face value.

British Columbia Investment Management Corporation

The British Columbia Investment Management Corporation was created through the Public Sector Pension Plans Act in November 1999. It is authorized to carry on trust business and provide investment management services to government and other provincial organizations and agencies. Previously, these services were provided directly through the Ministry of Finance and Corporate Relations, which transferred its investment operations to the corporation on January 1, 2000.

The corporation's board, referred to as the investment management board, has seven members: four appointed by the boards of the College, Municipal, Public Sector and Teachers' Pension plans; two appointed by the Minister of Finance and Corporate Relations to represent other clients; and the Deputy Minister of Finance, who acts as the Chair of the investment management board. The board administratively is accountable to the pension boards and trustees and other persons responsible for the funds managed by the corporation on their behalf.

As at March 31, 2000, the corporation had assets under administration of approximately $61 billion.

Forensic Psychiatric Services Commission

The Forensic Psychiatric Services Commission was established under the Forensic Psychiatry Act on April 1, 1999. As an agent of government, the commission operates the Forensic Psychiatric Institute that conducts fitness assessments for individuals appearing before the courts, and provides treatment to those found not guilty by reason of mental disorder.

The Act stipulates that the board of the commission include at least five persons appointed by government. At the start of its operations, the commission assumed the budget and staff resources formally provided by the Ministry of Health.

– continued

The commission is funded primarily through grants from the Ministry of Health and fees from the Medical Service Plan. These revenues totalled $43 million for the year ended March 31, 2000.

Organized Crime Agency of British Columbia Society

The Organized Crime Agency of British Columbia Society was incorporated on March 15, 1999, under the Society Act of British Columbia. The purpose of the society is to provide designated policy and law enforcement services directed at reducing and eliminating organized crime and other significant criminal activity in British Columbia. The society was established following the disbanding of the Co-ordinated Law Enforcement Unit.

The board of the society is made up of seven directors, appointed by the Attorney General of British Columbia.

Funding for this society is obtained though contributions received from the Province of British Columbia and the Royal Canadian Mounted Police, and donated services provided by federal and municipal police organizations. For the year ended March 31, 2000, these contributions amounted to $5.2 million.

Private Post-Secondary Education Commission

The Private Post-Secondary Education Commission was created on July 27, 1990, under the Private Post-Secondary Education Act. Its purpose is to develop and administer a mandatory registration system and voluntary accreditation program for private post-secondary educational institutions in the Province of British Columbia.

The board of the commission is to consist of no more that 15 members appointed and accountable to the Minister of Advance Education, Training and Technology and Minister responsible for Youth.

The operations of the commission are funded primarily through registration and accreditation fees levied on private post-secondary educational intuitions. These fees totalled $1.2 million for the 1999/2000 fiscal year.

Auditors of Crown Corporations, Agencies and Other Public Bodies

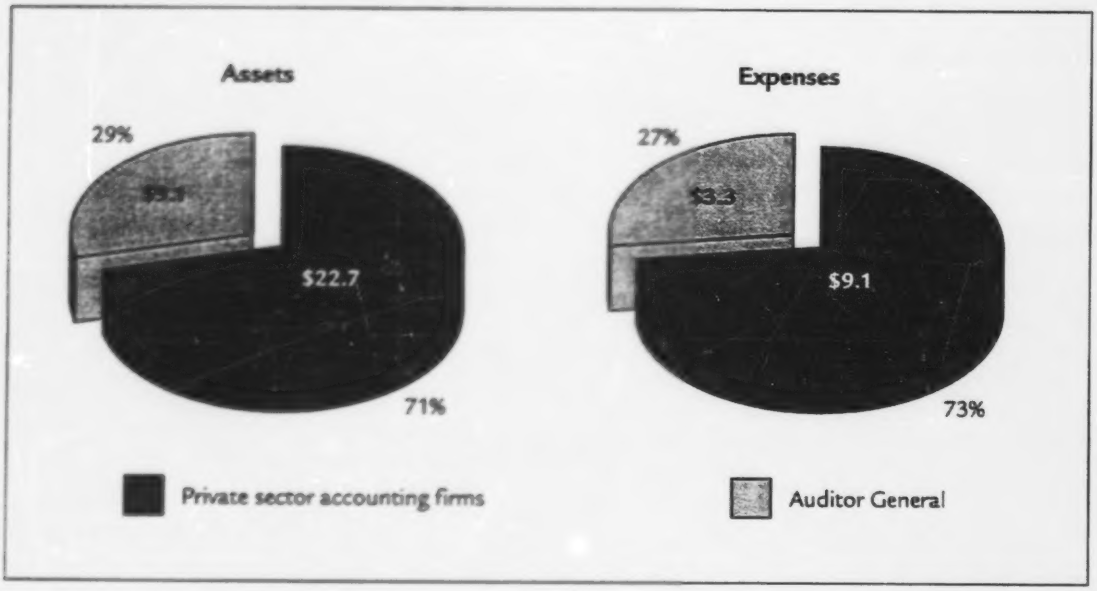
Exhibit 3.5 shows, for the government entities included in the 1999/2000 Summary Financial Statements of the Province, the asset and expense amounts audited by the Auditor General and those audited by private sector accounting firms. The Auditor General audited 26 such entities, which had total assets of $9.1 billion and expenses of $3.3 billion. Private sector accounting firms audited 29 government entities, which had combined assets and expenses of $22.7 billion and $9.1 billion, respectively. One small entity did not require an audit.

The Auditor General audited, in addition to the government entities included in the Summary Financial Statements of the Province, a further 58 government entities with assets of $99.7 billion and expenses (including financing

Exhibit 3.5

Distribution of Financial Statement Attest Audits

Asset and expense amounts audited by private sector accounting firms and by the Auditor General (for government entities), 1996 to 2000 ($ Billions)



Source: Financial statements of government entities

transactions) of $35.2 billion. Among these were 38 trust and investment funds, including pension and superannuation plans, administered by the government.

Appendix B of this report lists all the government entities referred to above.

With the exception of two entities, the auditor's reports on the financial statements of government entities included in the 1999/2000 Summary Financial Statements were issued without reservations. The exception relates to two small entities, whose auditor's reports noted that some revenues and expenditures could not be satisfactorily verified.

For the 29 government entities audited by private sector accounting firms, we need to rely on their audit work and reports. We must, however, take reasonable care to assure ourselves that our reliance on other auditors is justified. We do this by meeting annually with some of the private sector auditors and reviewing their working papers to the extent we consider necessary. This process also provides us with a good understanding of the nature of the audit work being undertaken in the public sector, which in turn helps us to provide further advice to the Minister and the Legislative Assembly about audit issues.

Accounting Standards for School and Regional Hospital Districts

When appropriate accounting standards are applied consistently by similar entities within the public sector, it enhances comparability between them and with similar organizations in the private sector. Such comparisons may also provide important information to users about the performance of a public sector entity.

An organization will select the accounting standards that most fairly portray its activities. The two main sources that public sector entities usually refer to for accounting guidance are the Accounting Standards Board (AcSB) and PSAB. Generally, most public sector entities look to the generally accepted accounting principles as set by the AcSB, when selecting the basis for financial reporting by their organizations. Certain public sector entities, however, may apply the PSAB recommendations either when they are most appropriate to their objectives and circumstances, or when the AcSB's standards require that.

Below, we discuss the need for improved financial reporting for schools and regional hospital districts.

School Districts Need Better Accounting Standards

Under the School Act, every school district is required to prepare audited financial statements. The Act broadly specifies the format, content and timing of the financial statements. The Ministry of Education provides detailed instructions and guidelines for the school districts to follow in their preparation of financial statements.

In our report on the 1997/98 Public Accounts, we reported our concerns with the appropriateness of certain accounting policies adopted by school districts, and with the consistency of accounting principles and financial statement reporting standards followed by them. Unless all districts record and present the results of their operations in an appropriate and consistent manner, the users of school district financial statements are hampered in making any meaningful comparison of financial management and performance between the various school districts within the province. We recommended that the government conduct a comprehensive review of accounting for school districts, with the purpose of improving their financial accountability.

Last year we reported that the Ministry of Education had initiated a comprehensive review to improve the accounting and reporting for school districts, and was hoping to complete its review and implementation of the necessary changes by July 2000. The completion timeline has been deferred to the end of the 2001/2002 school year.

Recommendation

We recommend that the government improve financial reporting by school districts.

Regional Hospital Districts Need Better Accounting Standards

For the year ended March 31, 2000, the regional hospital districts showed in their financial statements revenues aggregating $114 million, primarily made up of provincial contributions of $49 million and taxation revenue of $62 million. The financial statements as at March 31, 2000, also show total capital funding of $376 million that the districts had received from the Province and Municipal Financing Authority (MFA) for financing capital projects undertaken by health authorities.

We reviewed the annual audited financial statements of regional hospital districts and noted many inconsistencies in how the districts had interpreted and applied accounting and reporting standards. For example, different hospital districts accounted for the monies received for the purchase of capital assets and paid to health authorities in different ways. Some districts recorded such transactions on a cash basis, while others used the accrual basis of accounting for amounts due to be received or paid out as at year-end. In still other cases, some districts recorded the full amount of capital funding as prepaid capital advances—irrespective of the source—and some recorded only the MFA portion paid to health authorities as prepaid capital advances.

We also noted inconsistencies in the disclosure and presentation of financial information in the regional hospital districts' financial statements. Some of these inconsistencies related to the details of significant accounting policies underlying the financial statements, the inclusion or exclusion of consolidated fund statements, and the details pertaining to taxation revenue.

These inconsistencies make it difficult for users of the regional hospital districts' financial statements to draw meaningful comparisons between various districts within the province.

Recommendation

We recommend that the government conduct a comprehensive review of financial reporting by regional hospital districts.

Memorandum of Understanding with the Minister of Finance and Corporate Relations

The provisions of the Memorandum of Understanding between the Minister of Finance and Corporate Relations and the Auditor General are designed to provide a rational audit process that allows the Auditor General to fulfill the duties imposed by the current Auditor General Act.

The memorandum goes some way to rationalize who should perform the financial statement audits of government organizations, and gives the Auditor General the opportunity to provide guidance to private sector auditors. In the memorandum, the Minister has agreed that the auditor selection process will reflect the judgement of the Auditor General with respect to:

- the persons appointed as auditor;
- the nature and extent of the audit work undertaken; and
- the standards adhered to in conducting the audit.

The memorandum applies to audit appointments requiring the approval of the Minister, and also to appointments made by Order-in-Council. Therefore, the memorandum covers almost all Crown corporations, colleges, regional health boards, community health councils and community health services societies. It is supported by an implementation plan that provides for the Auditor General to be the auditor of some organizations and to relinquish that role in other cases to the private sector. New audits assumed by the Office enable us to increase our knowledge of government organizations and audit issues relating to them. Audits are usually taken on for a five-year period and then returned to the private sector.

For the 1999/2000 fiscal year the Office employed agents for the following:

- British Columbia Assessment Authority

- British Columbia Institute of Technology
- Creston Valley Wildlife Management Authority Trust Fund
- Legal Services Society
- Provincial Capital Commission
- Royal Roads University (new agency arrangement started in 1999/2000)
- Simon Fraser University
- University of Northern British Columbia
- University of Victoria

In 1999/2000, we released the audit of another community health services society to private sector auditors, and were appointed auditor for the following new organizations:

- 577315 British Columbia Ltd.
- British Columbia Investment Management Corporation

In keeping with the terms of the memorandum, we provide not only the Minister but also management with advice on the appointment of auditors. At the start of the auditor appointment process, we advise management about the various factors to be included in the Request for Proposal that goes to audit firms, and review the draft request and offer suggestions for improvement. We then review the process undertaken by the government organization, analyze the short list of suggested auditors, and provide our advice on the audit appointment to the Minister.

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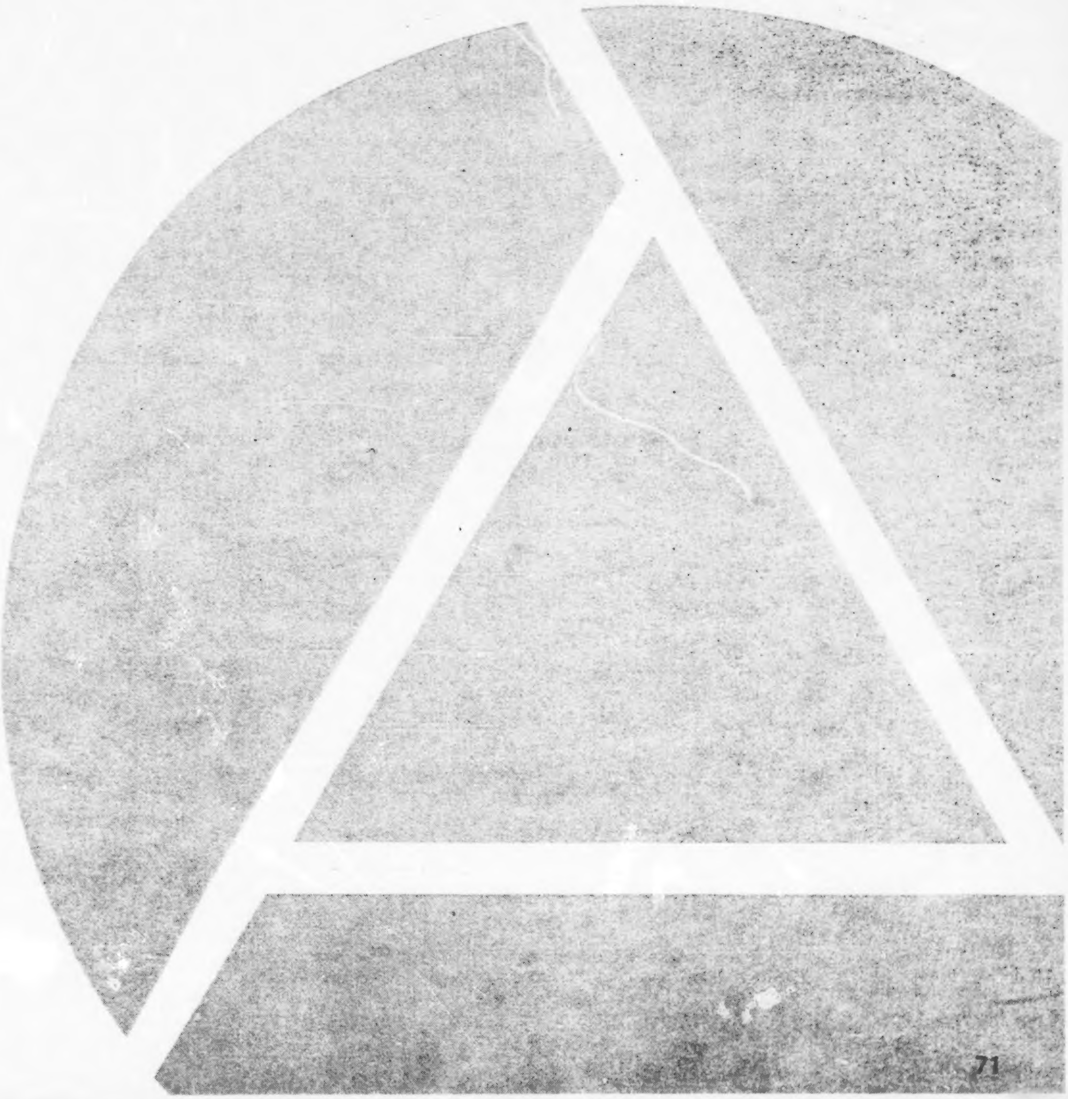
appendices



appendix a

Financial Statement Audit Objectives and Methodology, Office of the Auditor General

Purposes of Financial Statement Audits

An independent audit of financial statements has several purposes. The main one is to add credibility to the statements, thus enhancing their value to the ultimate users. Evidence of this is provided in the form of an auditor's report that accompanies the financial statements, and in which the auditor's opinion expresses whether the statements are presented fairly in accordance with an appropriate, disclosed basis of accounting.

Another benefit of such an annual audit is that its very existence provides a constant stimulus to an organization to ensure sound financial management. In addition, the auditor is frequently able to provide helpful assistance and advice to an organization as a direct result of findings developed during the audit.

Reporting the Results of Audits

As noted above, a financial statement audit results in the issuance of a report on those statements. These reports are addressed to whoever appointed or engaged the auditor to do the work, such as the organization's owner, the shareholders or some appropriate representative of those with a stake in the organization. In the case of the government financial statements examined by this Office, the Auditor General addresses his or her reports to the Legislative Assembly. The reports issued on the statements of Crown corporations and other government organizations are addressed to various parties, according to applicable appointment or engagement arrangements.

The auditor's report constitutes the auditor's professional opinion on the financial statements, and usually consists of three paragraphs.

The first paragraph identifies the financial statements that have been audited. It also points out that the statements are the responsibility of management, and that the auditor's responsibility is to express an opinion on the statements.

Next is the "scope" paragraph, which describes the nature and extent of the auditor's work and the degree of assurance that the auditor's report provides. Also, it refers to generally accepted auditing standards and describes some of the important procedures which the auditor undertakes.

The third paragraph, frequently referred to as the "opinion" paragraph, contains the auditor's conclusion based on the audit conducted.

If the auditor is unable to provide an opinion without reservation on the financial statements, the report must include another paragraph. In that paragraph, which would appear between the scope and the opinion paragraphs, the auditor advises the reader as to the reasons for the reservation, and the effects or possible effects on the financial statements of the matters giving rise to the reservation.

Finally, should the auditor wish to present additional information or explanations concerning the financial statements —information that does not constitute a reservation in the audit opinion—this will appear in a further, explanatory paragraph to the report.

Auditing Standards

When undertaking examination procedures for the purpose of expressing an opinion on financial statements, auditors are expected to comply with established professional standards, referred to as generally accepted auditing standards. The principal source of these standards in Canada is the Canadian Institute of Chartered Accountants (CICA).

Generally accepted auditing standards consist of three main areas. There are general requirements that the auditor be properly qualified to conduct and report on an audit, and that he or she carry out the duties with an objective state of mind. Further standards outline the key technical elements to be observed in the conduct of an audit. Finally, reporting standards set out the essential framework of the auditor's report on the financial statements.

In addition to these broad standards, the CICA makes other, more detailed, recommendations related to matters of auditing practice. As well, the CICA, through its Public Sector Accounting Board, makes recommendations that relate specifically to the audit of entities in the public sector.

Application of the Standards

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

Also, with respect to Crown corporations that are audited by other auditors and that form part of the Province's Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in conducting our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

Throughout these examinations, the Office of the Auditor General complies with all prescribed auditing standards in the conduct of its work. It must be realized, however, that the Auditor General's opinion on a set of financial statements does not guarantee the absolute accuracy of those statements. In the audit of any large organization, it is neither feasible nor economically desirable to examine every transaction. Instead, the auditor, using knowledge of an organization's business, methods of operation and systems of internal control, assesses the risk of error occurring and then designs audit procedures to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the organization's financial position or results of operations.

When determining the nature and extent of work required to provide such assurance, we consider two main factors: *materiality,* which is expressed in dollar terms, and *overall audit assurance,* expressed in percentage terms.

- *Materiality* relates to the aggregate dollar amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that a knowledgeable reader's judgement, based on the information contained in the statements, would be influenced.

  In our audit of the Province's financial statements, we have assumed that an error in the current year's operating results in excess of one-half of 1% of the gross expense of the government would be considered material. For our audits of government organizations, materiality is established based on the nature of the organization and an appropriate percentage (or combination of percentages) of expense, assets or surplus/deficit.

- *Overall audit assurance* represents, in percentage terms, how certain the auditor wants to be that the audit will discover errors, if any, in the financial statements, which in total exceed materiality.

In our audit of the Province's financial statements, we planned our work so as to achieve an overall audit assurance of 95% that the audit would detect total error in excess of materiality. For our audits of other government organizations, our planned overall audit assurance ranges between 95 and 97.5%. In choosing the level of assurance, we consider factors such as the expectations of the users of the financial statements and the nature of the audit evidence available.

In planning our audits of financial statements, we exercise professional judgment in determining the application of *these* two key factors. Professional judgment is influenced by our knowledge of the requirements of readers of the financial statements, and by what is generally accepted as being appropriate by auditors of similar organizations.

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appendix b

Government Entities and Trust Funds—Their Inclusion in, or Exclusion from, the Province's 1999/2000 Financial Statements, and Their Auditors

Entities Included in the Summary Financial Statements

	Audited by	
	Auditor General	Private Sector Auditors
552513 British Columbia Ltd.	✓	
577315 British Columbia Ltd.	✓	
580440 B.C. Ltd.	✓	
B.C. Community Financial Services Corporation		✓
B.C. Festival of the Arts Society		✓
B.C. Games Society		✓
B.C. Health Care Risk Management Society		✓
B.C. Pavilion Corporation		✓
BC Society for the Distribution of Gaming Revenue to Charities	✓	
BC Transportation Financing Authority	✓	
BCIF Management Ltd.		✓
British Columbia Arts Council[1]		✓
British Columbia Assessment Authority	✓	
British Columbia Assets and Land Corporation	✓	
British Columbia Buildings Corporation	✓	
British Columbia Enterprise Corporation	✓	
British Columbia Ferry Corporation		✓
British Columbia Health Research Foundation		✓
British Columbia Heritage Trust		✓
British Columbia Housing Management Commission		✓
British Columbia Hydro and Power Authority		✓
British Columbia Investment Management Corporation	✓	
British Columbia Liquor Distribution Branch[2]	✓	
British Columbia Lottery Corporation		✓

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[1] The entity's financial statements were unaudited.

[2] Branch of Ministry of Small Business, Tourism and Culture.

	Audited by	
	Auditor General	Private Sector Auditors
British Columbia Railway Company		✓
British Columbia Securities Commission	✓	
British Columbia Systems Corporation		✓
British Columbia Trade Development Corporation		✓
British Columbia Transit		✓
Canadian Blood Services		✓
Columbia Basin Trust		✓
Columbia Power Corporation	✓	
Creston Valley Wildlife Management Authority Trust Fund	✓	
Discovery Enterprises Inc.		✓
Duke Point Development Limited	✓	
First Peoples' Heritage, Language and Cultural Council		✓
Fisheries Renewal BC	✓	
Forensic Psychiatric Services Commission		✓
Forest Renewal BC	✓	
Health Facilities Association of British Columbia	✓	
Homeowner Protection Office	✓	
Industry Training and Apprenticeship Commission	✓	
Insurance Corporation of British Columbia		✓
Legal Services Society	✓	
Oil and Gas Commission	✓	
Okanagan Valley Tree Fruit Authority		✓
Organized Crime Agency of British Columbia Society		✓
Pacific National Exhibition		✓
Private Post-Secondary Education Commission		✓
Provincial Capital Commission	✓	
Provincial Rental Housing Corporation		✓
Rapid Transit Project 2000 Ltd.		✓
Science Council of British Columbia		✓
Tourism British Columbia	✓	
Vancouver Trade and Convention Centre Authority	✓	
Victoria Line Ltd.	✓	

Entities Not Included in the Summary Financial Statements

	Audited by	
	Auditor General	Private Sector Auditors
British Columbia Institute of Technology	✓	
Campbell River/Nootka Community Health Council	✓	
Coast Garibaldi Community Health Services Society	✓	
Kwantlen University College	✓	
Royal Roads University	✓	
Simon Fraser University	✓	
Technical University of British Columbia	✓	
The University of British Columbia	✓	
University of Northern British Columbia	✓	
University of Victoria	✓	
University Foundations:		
Foundation for the University of Victoria	✓	
Simon Fraser University Foundation	✓	
The University of British Columbia Foundation	✓	
University of Northern British Columbia Foundation	✓	
Other Education and Health Sector Entities		
Colleges and Advanced Education Institutes (20 entities)		✓
Community Health Councils (32 entities)		✓
Community Health Services Societies (6 entities)		✓
Health Care Organizations (13 entities)		✓
Health Regions/Regional Health Boards (11 entities)		✓
Regional Hospital Districts (34 entities)		✓
School Districts (60 entities)		✓

Trust Funds Disclosed in the Summary Financial Statements

	Audited by	
	Auditor General	Private Sector Auditors
BC Rail Ltd. Pension Plan	✓	
British Columbia Hydro and Power Authority Pension Plan		✓
British Columbia Investment Fund Ltd.		✓
British Columbia Public Service Long Term Disability Plan	✓	
College Pension Plan	✓	
Credit Union Deposit Insurance Corporation of British Columbia		✓
Members of the Legislative Assembly Superannuation Account	✓	
Municipal Pension Plan	✓	
College Pension Plan	✓	
Credit Union Deposit Insurance Corporation of British Columbia		✓
Members of the Legislative Assembly Superannuation Account	✓	
Municipal Pension Plan	✓	
British Columbia Investment Management Corporation		
Pooled Investment Portfolios:		
Active Canadian Equity Fund	✓	
Active U. S. Equity Fund	✓	
Asian Equity Fund	✓	
British Columbia Focus Fund	✓	
Canadian Money Market Fund ST1	✓	
Canadian Money Market Fund ST2	✓	
U. S. Dollar Money Market Fund ST3	✓	
Canadian Corporate Bond Fund	✓	
Construction Mortgage Fund	✓	
European Equity Fund	✓	
Fixed Term Mortgage Fund	✓	
Indexed Canadian Equity Fund	✓	
Indexed Government Bond Fund	✓	
International Equity Fund	✓	
Long Term Bond Fund	✓	
Pension Bond Fund	✓	

	Audited by	
	Auditor General	Private Sector Auditors
Private Placement Fund 1995	✓	
Private Placement Fund 1996	✓	
Private Placement Fund 1997	✓	
Private Placement Fund 1998	✓	
Private Placement Fund 1999	✓	
Private Placement Fund 1999A	✓	
Realpool Investment Fund	✓	
Realpool International Vintage Fund 1999	✓	
S & P 500 Index Equity Fund	✓	
Short Term Bond Fund	✓	
Specialty Mortgage Fund	✓	
TSE 100 Index Equity Fund	✓	
U.S. Index Enhanced Equity Fund	✓	
Public Service Pension Plan	✓	
Teachers' Pension Plan	✓	
Workers' Compensation Board of British Columbia	✓	
Workers' Compensation Board Superannuation Plan	✓	

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appendix c

Excerpts from the 1999/2000 Public Accounts

The material that forms Appendix C is from the Public Accounts of British Columbia for the fiscal year ended March 31, 2000. It consists of the Summary Financial Statements of the Province and the Auditor General's Report on them.

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**Report of the Auditor General
of British Columbia**

SUMMARY FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE PROVINCE OF BRITISH COLUMBIA

*To the Legislative Assembly
of the Province of British Columbia*

I have audited the balance sheet of the Government of the Province of British Columbia as at March 31, 2000 and the statements of operations and of changes in cash and temporary investments for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

As required by section 10(2) of the *Auditor General Act*, I advise Members of the Legislative Assembly these financial statements are presented in accordance with the stated accounting policies and on a basis consistent with that applied to the comparative amounts of the preceding year. In addition, I advise that I have been provided all of the information I required.

Reservation

In note 1 to these financial statements, the Government reports that its stated accounting policies are not fully consistent with generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants. Consequently, these financial statements do not include the complete financial results of school districts, universities, colleges and institutes, public health care organizations, and regional hospital districts.

. . . 2

Had a complete accounting been provided as at March 31, 2000, (as disclosed in note 1c), total assets would increase by $4,718 million ($4,467 million at March 31, 1999), total liabilities would increase by $2,147 million ($1,886 million at March 31, 1999), and the net deficiency would decrease by $2,571 million ($2,581 million at March 31, 1999). Similarly, for the year ended March 31, 2000, total revenues would increase by $1,881 million ($1,704 million for 1999), total expenses would increase by $1,894 ($1,646 million for 1999), and the annual surplus would decrease by $13 million (deficit decrease of $58 million for 1999).

Opinion

In my opinion, except for the effects of my reservation explained in the preceding paragraphs, these financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2000, and the results of its operations and the changes in its cash and temporary investments for the year then ended, in accordance with generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants.

Other comments

The Canadian Institute of Chartered Accountants recommends that government financial statements include a comparison of planned and actual revenues and expenses. Such a comparison provides an important basis for understanding, assessing and asking questions about a government's management.

In these summary financial statements, the Government provides a partial comparison of planned and actual revenues and expenses. This is reasonable for this year because the Government has only recently made the commitment to prepare and use a full financial planning framework that encompasses its overall operations.

The Institute also recommends that government financial statements include an accounting of net liabilities as an integral part of the balance sheet. Net liabilities is the difference between a government's liabilities and financial assets. Net liabilities is a key indicator of financial position because it provides important information on whether a government's future revenue requirements are increasing or decreasing as a result of past transactions and events.

. . . 3

In these financial statements, the Government has chosen to provide separate disclosure and reconciliation of its net liabilities rather than reporting this key indicator as an integral part of its balance sheet. As a result, the state of the Government's finances is more difficult to analyse and to compare from one period to the next and from one jurisdiction to another.

In these statements, the Government provides complex reconciling schedules to explain the consequences of not fully following generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants. I urge the Government to adopt the accounting principles recommended by the Institute. Following accounting principles recommended by an independent and authoritative standard-setting body is essential to the credibility and comparability of financial statements.

Victoria, British Columbia
June 25, 2000

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Statement of Responsibility for the Summary Financial Statements of the Province of British Columbia

Responsibility for the integrity and objectivity of the Summary Financial Statements of the Province of British Columbia rests with the government. These financial statements are prepared by the Comptroller General under the direction of the Treasury Board, in accordance with the government's stated accounting policies. The fiscal year of the government is from April 1 to March 31 of the following year.

To fulfill its accounting and reporting responsibilities, the government maintains systems of financial management and internal control. These systems give due consideration to costs, benefits and risks, and are designed to provide reasonable assurance that transactions are properly authorized by the Legislative Assembly, are executed in accordance with prescribed regulations and are properly recorded. This is done to maintain accountability of public money and safeguard the assets and properties of the Province of British Columbia under government administration. The Comptroller General of British Columbia maintains the accounts of British Columbia, a centralized record of the government's financial transactions, and obtains additional information as required from ministries, agencies and Crown corporations to meet accounting and reporting requirements.

The Auditor General of British Columbia provides an independent opinion on the financial statements prepared by the government. The duties of the Auditor General in that respect are contained in section 10 of the *Auditor General Act*.

Annually, the financial statements are tabled in the Legislature as part of the Public Accounts, and are referred to the Select Standing Committee on Public Accounts of the Legislative Assembly. The Select Standing Committee on Public Accounts reports to the Legislative Assembly on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinions.

Approved on behalf of the Government of the Province of British Columbia:

Paul Ramsey

PAUL RAMSEY
Chair, Treasury Board

Summary Financial Statements
Balance Sheet
as at March 31, 2000

		In Millions	
	Note	2000	1999
Assets		$	$
Cash and temporary investments	3	1,535	791
Warehouse Program investments	4	1,320	658
Accounts receivable	5	2,346	2,073
Inventories	6	245	226
Due from other governments	7	271	286
Due from self-supported Crown corporations and agencies	8	417	401
Equity in self-supported Crown corporations and agencies	9	2,745	2,885
Loans, advances and mortgages receivable	10	402	313
Other investments	11	315	279
Loans for purchase of assets, recoverable from agencies	12	7,530	7,992
Other assets	13	340	264
Prepaid capital advances	14	6,517	6,138
Tangible capital assets	15	10,217	9,771
		34,200	**32,077**
Liabilities and Net Equity			
Accounts payable and accrued liabilities	16	2,871	2,625
Due to other governments	17	105	146
Due to Crown corporations, agencies and funds	18	82	67
Deferred revenue	19	524	537
Unfunded pension liabilities	20	2,053	2,393
Taxpayer-supported debt	21	24,794	22,798
Self-supported debt	22	8,711	8,503
		39,140	37,069
Net equity (deficiency)	24	(4,940)	(4,992)
		34,200	**32,077**
Net liabilities	25	21,674	20,901
Contingencies and commitments	26		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Prepared in accordance with the accounting policies as determined by Treasury Board.

ARN VAN IERSEL
Comptroller General

Summary Financial Statements
Statement of Operations
for the Fiscal Year Ended March 31, 2000

	In Millions	
	2000	1999
Revenue	$	$
Taxation (Note 27)	13,734	13,510
Natural resources	2,821	2,015
Fees and licences	1,965	2,079
Investment earnings[1]	198	248
Miscellaneous	566	469
Net earnings of self–supported Crown corporations and agencies (Note 9)	1,295	1,520
Contributions from the federal government	2,704	2,245
Recoveries	1,311	1,294
Total Revenue	24,594	23,380
Expense		
Health[2]	8,081	7,527
Social services	3,114	3,146
Education[2]	6,050	5,875
Protection of persons and property	1,227	1,071
Transportation[2]	1,684	2,042
Natural resources and economic development	1,435	1,532
Other	784	789
General government	398	431
Interest[2]	1,769	1,970
Total operating expense (Note 28)	24,542	24,383
Surplus (deficit) for the year (Note 30)	**52**	**(1,003)**

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[1] Includes $79 million (1999: $18 million) interest earned on investments under the Warehouse Program.

[2] For 1999/00, interest expense of $675 million (1999: $395 million) was included in health $131 million (1999: nil); education $455 million (1999: $395 million); and transportation $89 million (1999: nil).

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments for the Fiscal Year Ended March 31, 2000

	In Millions			
	2000			1999
	Receipts $	Disbursements $	Net $	Net $
Operating Transactions				
Surplus (deficit) for the year			52	(1,003)
Non-cash items included in surplus (deficit):				
Amortization of tangible capital assets			478	551
Amortization of prepaid capital advances			337	240
Amortization of public debt deferred revenues and deferred charges			38	35
Concessionary loan adjustments (decreases)			(2)	
Valuation adjustments			392	90
Net earnings of self-supported Crown corporations and agencies			(1,295)	(1,520)
Unfunded pension liability (decreases)			(340)	(303)
Transfer of highways to municipalities			10	91
Accounts receivable decreases (increases)			(321)	91
Due from other governments decreases (increases)			15	(51)
Due from self-supported Crown corporations and agencies decreases (increases)			(16)	9
Equity in self-supported Crown corporations and agencies decreases				20
Accounts payable increases (decreases)			246	(23)
Due to other governments (decreases)			(41)	(84)
Due to Crown corporations, agencies and funds increases (decreases)			15	(39)
Items applicable to future operations (decreases)			(71)	(128)
Contributions of self-supported Crown corporations and agencies			1,485	1,425
Accounting adjustments to equity				(47)
Cash derived from (used for) operations			982	(646)
Investing Transactions				
Tangible capital assets—net (acquisitions)	25	1,261	(1,236)	(438)
Loans, advances and mortgages receivable—net (issues)	51	138	(87)	(44)
Investment in self-supported Crown corporations and agencies (increases)		50	(50)	(50)
Other investments—net decrease (increase)	6	78	(72)	25
Prepaid capital advances (increases)		716	(716)	(504)
Cash (used for) investments	82	2,243	(2,161)	(1,011)
Total financing (requirements)			(1,179)	(1,657)

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments for the Fiscal Year Ended March 31, 2000—Continued

	In Millions 2000			1999
Financing Transactions[1]	Receipts $	Disbursements $	Net $	Net $
Public debt increases	25,154	22,956	2,198	2,040
(Used for) Warehouse Program investments	(4,474)	(3,811)	(663)	(475)
Derived from (used for) loans for purchase of assets, recoverable from agencies	(6,953)	(7,341)	388	(415)
Cash derived from financing	13,727	11,804	1,923	1,150
Non–cash Transactions included on the Balance Sheet[2]				
Fiscal agency loan receivable decreases				5,190
Prepaid capital advances (increases)				(5,874)
Equity adjustment				684
			0	0
Increase (decrease) in cash and temporary investments			744	(507)
Balance—beginning of year			791	1,298
Balance—end of year			1,535	791

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[1] Financing transaction receipts are from debt issues and disbursements are for debt repayments.

[2] The 1998/99 amount includes the non–cash impact resulting from a change in accounting for social capital funding to schools, post secondary educational institutions, and health facilities.

The accompanying notes and supplementary statements are an integral part of these financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000

1. Significant Accounting Policies

(a) REPORTING ENTITY

These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. Accountability to a minister or directly to the Legislature, for purposes of the reporting entity, does not include those entities that are part of a province–wide program yet are locally based and have an initial accountability to a local board.

The reporting entity also includes government partnerships. A government partnership is a contractual arrangement between the government and a party or parties outside the government reporting entity that has all the following characteristics:

(i) the partners cooperate toward achieving significant, clearly defined common goals
(ii) the partners make a financial investment in the government partnership
(iii) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis
(iv) the partners share, on an equitable basis, the significant risks and benefits associated with the operation.

A list of organizations included in these consolidated financial statements may be found on pages 54 and 55.

Trusts administered by the government or a Crown corporation or agency are excluded from the government reporting entity.

(b) PRINCIPLES OF CONSOLIDATION

The accounts of the organizations, except those designated as self-supported Crown corporations and agencies, are consolidated after adjusting them to a basis consistent with the accounting policies described below. Government's interests in government partnerships other than government business partnerships are recorded on a proportional consolidation basis. Inter–organization accounts and transactions are eliminated upon consolidation.

A self–supported Crown corporation, agency or a government business partnership is an organization that:

(i) is a separate legal entity with the power to contract in its own name and that can sue or be sued
(ii) has been delegated the financial and operational authority to carry on a business
(iii) sells goods and/or services to individuals and organizations outside the government reporting entity as its principal activity
(iv) can, in the normal course of its operation, maintain its operations and meet its liabilities from revenue received from sources outside the government reporting entity.

Self–supported Crown corporations and agencies and government business partnerships are recorded on the modified equity basis. Under this basis, the government's share of the investment is initially recorded at cost and adjusted annually to include the net earnings/losses and other net equity changes of the self–supported Crown corporation or agency without adjusting them to conform with the accounting policies described below. Since the government ensures the ongoing activities of self–supported Crown corporations and agencies, full account is taken of losses in these entities, even when the cumulative losses exceed the original investment.

Accounts and transactions between self–supported entities are not eliminated. However, profit elements included in such transactions, including certain increases in contributed surplus, are eliminated.

No adjustments are made for Crown corporations and agencies whose fiscal year–ends are different from the government's fiscal year–end of March 31, unless the effect of an adjustment would be significant to the consolidated operating result.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

1. Significant Accounting Policies—Continued

(c) BASIS OF ACCOUNTING

The government's Summary Financial Statements are prepared in accordance with the generally accepted accounting principles for senior governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, with the following exceptions:

(i) Reporting entity—school districts, universities, colleges, institutes, public health care organizations, and regional hospital districts (SUCH sector) are not included in the government's reporting entity

(ii) Prepaid capital advances—amounts paid as prepaid capital advances to school districts, universities, colleges, advanced educational institutions, health authorities and specified taxpayer–supported Crown corporations and agencies are not expensed in the year they are issued, but are treated as a prepaid expense and amortized over the life of the tangible capital assets acquired with the advances

(iii) Expense basis of accounting—the net book value of tangible capital assets is included in total assets in calculating the "net equity" and the Statement of Operations is prepared on the expense basis; it is not returned to the expenditure basis of accounting.

The following table provides the impact to the province's financial statements if the accounting policies were changed to conform to PSAB.

	In Millions					
	Assets	Liabilities	Net Equity	Revenue	Expense	Deficit
	$	$	$	$	$	$
Inclusion of SUCH sector and expensing prepaid capital advances	4718	2,147	2,571	1,881	1,894	13
Change from expense to expenditure basis of accounting	(19,232)		(19,232)		847	847
Increase (decrease)	**(14,514)**	**2,147**	**(16,661)**	**1,881**	**2,741**	**860**

(d) SPECIFIC ACCOUNTING POLICIES

Revenue

All revenue is recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The exception is corporation income tax, which is recorded on a cash basis.

Government transfers are recognized as revenues in the period during which the transfer is authorized and any eligibility criteria are met.

Tax credits/offsets are accrued on the same basis as the associated tax revenues and reduce gross taxation revenue but are not considered valuation allowances.

Expenses

The cost of all goods and services received during the year is recorded as expenses of the province.

Interest expense is recorded net of sinking fund earnings.

Pension expense is calculated as the cost of pension benefits earned by employees during the year, interest on the pension benefits liability net of pension plan assets and amortization of the government's share of any experience gains or losses, less contributions made by employees and other employers. The estimated total cost of the government's share of the plan amendments related to past service is expensed in the year the plan is amended.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

1. Significant Accounting Policies—Continued

Major types of government transfers include grants and contributions. Government transfers are recognized as expenses in the period during which the transfer is authorized and any eligibility criteria are met. This excludes transfers that meet the criteria for a prepaid capital advance.

Acquisitions of tangible capital assets and prepaid capital advances are recorded as assets and the cost is amortized over the useful life of the relevant tangible capital assets. Tangible assets not related to a capitalized class of assets are expensed in the year of acquisition.

Assets

Assets are recorded to the extent that they represent cash and claims upon outside parties, items held for resale to outside parties, a prepaid expense, deferred charge, prepaid capital advances or tangible capital assets acquired as a result of events and transactions prior to the year–end.

Financial Assets

Temporary and Warehouse Program investments include short–term investments recorded at the lower of cost or market value.

Inventories include property which has been purchased, or for which development costs have been incurred, that is held for ultimate resale or lease to outside parties. It also includes the cost of development of standing timber for the Small Business Forest Enterprise Program, valued using the "first–in first–out" method. They are recorded at the lower of cost or net realizable value.

Equity in self–supported Crown corporations and agencies represents the government's investment (including long–term advances) in those self–supported Crown corporations and agencies at cost, adjusted for increases and decreases in the investees' net assets.

Loans, advances and mortgages are recorded at the principal amount less valuation allowances.

Other investments are recorded at the lower of cost of acquisition, which may be adjusted by attributed income, or market value.

The Fiscal Agency Loan Program consists of loans made to government bodies. Loans are recorded at maturity value less unamortized premium/discount and sinking fund balances. Premium/discount is amortized on a Constant Yield basis.

Prepaid Capital Advances

Prepaid capital advances are provided to school districts, post–secondary educational institutions, health organizations and other specified government organizations to fund capital asset acquisitions. The province has an on–going claim on the assets of these organizations. Prepaid capital advances are amortized over the useful life of the assets funded.

Tangible Capital Assets

All significant tangible capital assets of government organizations and operations have been capitalized with the exception of certain land that is not associated with a capitalized class of asset. Non–capitalized tangible capital assets are recorded at the nominal value of $1.

Gains arising from the initial valuation and capitalization of the existing tangible capital assets are accounted for as a component of accumulated equity.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

1. Significant Accounting Policies—Continued

Tangible capital assets are recorded at historical cost. Estimated cost is used to record existing tangible capital assets when actual cost is unknown. The recorded cost, less the residual value, is generally amortized over the estimated useful lives of the assets on a straight–line basis except for some transportation equipment which is amortized using the sinking fund method.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year–end, including probable losses on loan guarantees issued by the government, contingent liabilities when it is likely a liability exists and the amount of the liability can be reasonably determined on an individual or portfolio basis, and unfunded pension liabilities.

Unfunded Pension Liabilities

Unfunded pension liabilities represent the unfunded portion of pensions to be provided to public sector employees. The percentage of the unfunded portion of certain statutory pension plans, which are funded by the province, is included. The amount is calculated using the Accrued Benefit Actuarial Cost Method.

Changes in the unfunded liability for pension plans which arise as a result of estimation adjustments due to experience gains or losses and changes in actuarial assumptions are amortized over the expected average remaining service life of the related employee group. Gains or losses arising as a result of plan amendments are recognized in full in the year of amendment.

Public Debt

Public debt represents the direct debt obligations of the Province of British Columbia, including borrowings incurred for government operating purposes, including the acquisition of capital assets and for re–lending to authorized government bodies and for borrowings in advance of future requirements under the Warehouse Program. Public debt consists of short–term promissory notes, notes, bonds and debentures, bank loans, capital leases and mortgages payable. These obligations are recorded at principal less unamortized premium or discount and sinking fund balances where applicable. Public debt is reported under two categories, taxpayer–supported and self–supported.

Taxpayer–supported debt includes direct debt used for government operating and capital purposes, and the debt of Crown corporations and agencies that requires an operating or debt servicing subsidy from the provincial government or are fully consolidated within these financial statements.

Self–supported debt includes the debt of commercial Crown corporations and agencies that fully fund their operations and debt from revenue generated through the sale of goods and/or services at commercial rates to buyers that are outside the government reporting entity. Self–supported debt includes debt of the Warehouse Program.

Debt premium/discount is amortized on a Constant Yield basis. Unamortized premium/discount on bonds called and refinanced are amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

When it has been determined that there are sufficient securities to satisfy scheduled interest and principal payments for a debt instrument, the sinking fund assets are set aside in a defeased trust account. The debt and the related securities used to extinguish the debt are removed from the province's Balance Sheet. The debt is considered extinguished for financial reporting purposes.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

1. Significant Accounting Policies—Continued

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year–end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts that specify the rate of exchange. Adjustments to revenue or expense transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long–term, fixed–term monetary assets and liabilities are reported as deferred charges and amortized over the remaining terms of the related items on a straight–line basis. Non–monetary assets and liabilities are translated at historical rates of exchange.

Derivative Financial Instruments

The province is a party to financial instruments with off–balance sheet risk due to fluctuations in foreign currency exchange rates, interest rate fluctuations and counterparty default on financial obligations. The province does not use derivative financial instruments for speculative purposes. Off–balance sheet position data is given in the form of nominal principal amounts outstanding. Amounts paid and received under swaps are recognized and offset against the related interest expense. Gains and losses on terminated derivative contracts are deferred and amortized over the lesser of the remaining term of the contract or the related debt.

(e) EFFECT OF ACCOUNTING CHANGE

The government has changed its method of calculating its pension expense to agree with the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants recommendations. Previously, it has used the cash payments to estimate its pension expense, adjusted by an amortization of the change in unfunded pension liability and the impact of any plan amendments in the fiscal year.

The new method of calculating will include an estimate of the earned employee benefits and the net interest earnings of the pension plan in its calculated expense total rather than the cash payments. The impact on the 1999/00 fiscal year is a $352 million (1999: $187 million) reduction in total expenses. If this accounting change had not been implemented, the Summary operating result would have been a deficit of $300 million (1999: $1,190 million).

2. Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty in these financial statements exists in the accruals for pension obligations, Canada Health and Social Transfer (CHST) and personal income tax.

The nature of the uncertainty in the pension accrual arises because actual results may differ significantly from the province's best estimates of expected results based on variables such as earnings on pension investments and life expectancy of claimants. Uncertainty related to the accrual for CHST and personal income tax arises because of the possible differences between the estimated and actual economic growth and related impact on taxes receivable.

The future profitability of 552513 British Columbia Ltd is uncertain due to the volatility of world pulp prices and the impact of that on Skeena Cellulose Inc (majority owned by 552513 British Columbia Ltd).

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

3. Cash and Temporary Investments

	In Millions 2000	1999
	$	$
Cash (cheques issued in excess of funds on deposit)	261	(76)
Temporary investments[1]	1,274	867
	1,535	**791**

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[1] Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolio money market funds. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value.

4. Warehouse Program Investments

	In Millions 2000	1999
	$	$
Temporary investments[1]	1,330	660
Deferred charges	5	9
	1,335	669
Accrued interest payable	(15)	(11)
	1,320	**658**

---

[1] Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolio money market funds. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value.

5. Accounts Receivable

	In Millions 2000	1999
	$	$
Taxes receivable	1,681	1,547
Trade accounts receivable	822	663
Accrued interest	270	237
	2,773	2,447
Provision for doubtful accounts	(427)	(374)
	2,346	**2,073**

6. Inventories

	In Millions 2000	1999
	$	$
Properties for resale	96	108
Other	149	118
	245	**226**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

7. Due from Other Governments

	In Millions	
	2000	1999
	$	$
Government of Canada:		
Current	252	255
Long–term	1	1
Provincial governments:		
Current	12	10
Local governments:[1]		
Current	6	20
	271	**286**

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[1] Local governments are municipal units established by the provincial government. They include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

8. Due from Self–supported Crown Corporations and Agencies

	In Millions	
	2000	1999
	$	$
British Columbia Hydro and Power Authority	343	326
British Columbia Lottery Corporation	74	75
	417	**401**

See page 59 for details.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

9. Equity in Self-supported Crown Corporations and Agencies

	In Millions 2000			1999
	Investments $	Unremitted Earnings $	Total $	Total $
552513 British Columbia Ltd[1]		(57)	(57)	(54)
British Columbia Hydro and Power Authority		1,514	1,514	1,312
British Columbia Railway Company	258	277	535	1,118
Columbia Power Corporation	252	12	264	210
Insurance Corporation of British Columbia		475	475	285
Provincial Capital Commission		14	14	14
	510	**2,235**	**2,745**	**2,885**

Change in Equity in Self-supported Crown Corporations and Agencies

	In Millions 2000			1999
	Investments $	Unremitted Earnings $	Total $	Total $
Balance—beginning of year	460	2,425	2,885	2,797
Increase in investment	50		50	50
Net earnings of self-supported Crown corporations and agencies		1,295	1,295	1,520
Contributions paid to the Consolidated Revenue Fund		(1,376)	(1,376)	(1,348)
Adjustments to contributions paid		(109)	(109)	(77)
Restatement of prior years' unremitted earnings[2]				(35)
Transferred to consolidated entity[3]				(22)
Balance—end of year	**510**	**2,235**	**2,745**	**2,885**

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[1] This company owns shares in Skeena Cellulose Inc.

[2] This restatement is to record the impact of British Columbia Railway Company's change in accounting treatment for non-pension post-employment benefits.

[3] B.C. Community Financial Services Corporation and British Columbia Assets and Land Corporation were fully consolidated in the 1998/99 Summary Financial Statements as they no longer met the criteria of self-supported Crown corporations and agencies and, therefore, are no longer consolidated using the modified equity basis.

10. Loans, Advances and Mortgages Receivable

	In Millions 2000 $	1999 $
Loans and advances	491	423
Mortgages receivable	37	26
	528	449
Provision for doubtful accounts	(126)	(136)
	402	**313**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

11. Other Investments

	In Millions	
	2000	1999
	$	$
Investments	315	279

12. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions	
	2000	1999
	$	$
552513 British Columbia Ltd[1]	31	4
British Columbia Hydro and Power Authority	6,753	7,269
British Columbia Railway Company	606	572
Improvement districts	4	4
Oak Bay Lodge	1	1
Pacific Racing Association	5	5
Post-secondary educational institutions	130	137
	7,530	7,992

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[1] This company owns shares in Skeena Cellulose Inc.

13. Other Assets

	In Millions	
	2000	1999
	$	$
Prepaid program costs[1]	113	80
Deferred charges	227	184
	340	264

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[1] Includes inventories of operating material held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year.

14. Prepaid Capital Advances

	In Millions	
	2000	1999
	$	$
Health facilities	2,301	2,075
Post-secondary educational institutions	2,178	2,106
Schools	5,579	5,161
	10,058	9,342
Accumulated amortization	(3,541)	(3,204)
	6,517	6,138

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

15. Tangible Capital Assets

	In Millions	
	2000	1999
	Net Book Value $	Net Book Value $
Land	600	570
Buildings	1,123	1,183
Highway infrastructure	5,872	5,635
Ferries and related infrastructure	620	805
Transportation equipment	1,613	1,240
Computer hardware and software	264	226
Other	125	112
	10,217	**9,771**

See Statement of Tangible Capital Assets on page 61.

The estimated useful lives of the more common tangible capital assets are: buildings (10–50 years); highway infrastructure (15–40 years); ferries and related infrastructure (5–40 years); transportation equipment (5–40 years); computer hardware and software (3–5 years); and other (including vehicles, specialized equipment, and furniture and equipment) (5–20 years). Tenant improvements (included in buildings) are amortized over 5 years or the length of the relevant lease term.

16. Accounts Payable and Accrued Liabilities

	In Millions	
	2000	1999
	$	$
Trade accounts payable and other liabilities	1,331	1,287
Accrued interest on debt	820	747
Accrued employee leave entitlements	166	166
Other accrued estimated liabilities[1]	554	425
	2,871	**2,625**

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[1] Includes pending litigation, provision for guaranteed debt payout and other miscellaneous accrued claims.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

17. Due to Other Governments

	In Millions 2000	In Millions 1999
	$	$
Government of Canada:		
Current	48	81
Provincial governments:		
Current	8	5
Local governments:[1]		
Current	29	28
Long-term	20	32
	105	146

---

[1] Local governments are municipal units established by the provincial government. They include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

18. Due to Crown Corporations, Agencies and Funds

	In Millions 2000	In Millions 1999
	$	$
British Columbia Liquor Distribution Branch	7	6
Post-secondary educational institutions	2	3
Health care organizations	13	2
Trust funds	60	56
	82	67

19. Deferred Revenue

	In Millions 2000	In Millions 1999
	$	$
Medical Services Plan premiums	58	60
Motor vehicle licences and permits	157	150
Petroleum, natural gas and minerals, leases and fees	27	26
Water rentals and recording fees	83	84
Derivative debt instruments	12	36
Unearned lease revenue	92	89
Federal and municipal highway project revenues	13	14
Miscellaneous	82	78
	524	537

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

20. Unfunded Pension Liabilities

	In Millions	
	2000	1999
	$	$
Public Service Pension Plan[1]	124	191
Members of the Legislative Assembly Superannuation Plan[2]	7	7
Municipal Superannuation Plan[3]	357	556
Teachers' Pension Plan[4]	1,565	1,639
	2,053	**2,393**

The province sponsors contributory defined pension plans for substantially all its employees and for Members of the Legislature. The plans provide pensions based on length of service and final average earnings. They do not provide for inflation protection other than that set aside in special inflation accounts.

The unfunded pension liability for each plan consists of the accrued benefit obligation less the pension fund assets and any unamortized estimation adjustments. Actuarial valuations for accounting purposes are performed triennially using the projected benefit method pro–rated on services. The assumptions used in the valuations were based on the government's estimates of expected long–term rates and short–term forecasts. Each plan's future experience will inevitably vary from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. These gains or losses are amortized over the expected average remaining service life (EARSL) of the related employee group.

Key actuarial assumptions used in the valuations include a long–term annual rate of return on pension fund assets of 7.30% for the Public Service Pension Plan, 7.25% for the Municipal Pension Plan and 7.50% for the Teachers Pension Plan, and long–term annual salary increases of 4.80% for the Public Service Pension Plan, 4.75% for the Municipal Pension Plan and 5.00% for the Teachers Pension Plan.

A separate pension fund is maintained for each pension plan except for the Members of the Legislative Assembly Superannuation Plan. Pension plan fund assets consist primarily of direct ownership in units of pooled investment portfolios, managed by the British Columbia Investment Management Corporation (previously known as the Office of the Chief Investment Officer). Pension fund assets are valued at market related values whereby fluctuations in market value are recognized over a five–year period.

The audited financial statements of each pension plan listed, along with full descriptions, benefit formulas, inflation assumptions and funding policies, are published on the Ministry of Finance and Corporate Relations' web site.

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[1] This consists of accrued pension benefit obligations of $6,907 million (1999: $6,339 million) less pension fund assets of $7,923 million (1999: $7,425 million) and an unamortized estimation adjustment of $1,140 million (1999: $1,277 million). The most recent actuarial report was prepared at March 31, 1999. The accrued benefit obligation and pension assets shown for 1999/00 are based on extrapolations of that valuation. The estimation adjustment is a net unamortized gain to be amortized on a straight–line basis over the EARSL of the related employee groups (10.8 to 12.0 years). During 1999/00, a plan amendment was made to the Public Service Pension Plan changing the formula for determining eligibility for an unreduced pension on early retirement, causing an increase in the liability totalling $142 million. Legislative provisions allow a plan surplus to be refunded annually over a 15–year period to the employers. Accordingly, refunds have been made to employers commencing in 1996/97. For 1999/00, the refund was $79 million (1999: $19 million).

[2] An actuarial valuation for the Members of the Legislative Assembly Superannuation Plan has not been performed. The unfunded liability is based on an estimate.

[3] This, based on the provinces share (70%), consists of accrued pension benefit obligations of $6,494 million (1999: $6,075 million) less pension fund assets of $6,571 million (1999: $6,004 million) and an unamortized estimation adjustment of $434 million (1999: $485 million). The most recent actuarial report was prepared at December 31, 1997. The accrued benefit obligation and pension assets shown for 1999/00 are based on extrapolations of that valuation. The estimation adjustment is a net unamortized gain to be amortized on a straight–line basis over the EARSL of the related employee groups (10.7 to 10.5 years).

[4] This consists of accrued pension benefit obligations of $8,144 million (1999: $7,667 million) less pension fund assets of $6,851 million (1999: $6,328 million) and an unamortized estimation adjustment of $272 million (1999: $300 million). The most recent actuarial report was prepared at December 31, 1996. The accrued benefit obligation and pension assets shown for 1999/00 are based on extrapolations of that valuation. The estimation adjustment is a net unamortized gain to be amortized on a straight–line basis over the EARSL of the related employee groups (12.66 years).

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

21. Taxpayer–Supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Foreign Currencies[2]	2000 Canadian Dollar Total	1999 Canadian Dollar Total
Short–term promissory notes..............	2000						1,511
	2001	1,032	126			1,158	
Notes, bonds and debentures................	2000						1,846
	2001	1,405	177	444		2,026	2,005
	2002	1,809			197	2,006	2,053
	2003	1,065	1,120			2,185	1,641
	2004	1,346			409	1,755	1,773
	2005	1,022			585	1,607	1,520
	2005–2010	5,347	1,299	59	628	7,333	5,820
	2010–2015	4,374	154	110	576	5,214	4,675
	2015–2020	409				409	151
	2020–2025	2,281				2,281	2,026
	2025–2030	2,410				2,410	1,510
	2030–2035						
	2035–2040	365				365	165
Total debt issued at face value........		**22,865**	**2,876**	**613**	**2,395**	28,749	26,696
Sinking funds[3]..						(3,840)	(3,737)
Unamortized discount						(113)	(159)
Amount held in the Consolidated Revenue Fund						(2)	(2)
Total taxpayer–supported debt..............						**24,794**	**22,798**

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2000..	7.30	
1999..		7.53

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[1] The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 23 (Risk Management and Derivative Financial Instruments).

[2] Foreign currencies include: $1,923 million US ($2,876 million Canadian); 111,029 million Japanese yen ($613 million Canadian); 191 million Pound Sterling ($409 million Canadian); 800 million Swiss Franc ($782 million Canadian); 703 million Deutsche Mark ($576 million Canadian); and 2,500 million French Franc ($628 million Canadian).

[3] Sinking fund balances include assets totalling $83 million (1999: $83 million) invested in the Matched Book Program and assets totalling $3,757 million (1999: $3,654 million) set aside for orderly repayment of debt. Sinking funds at March 31, 2000, totalling $131 million US (1999: $124 million US) act as a natural hedge of the US dollar debentures.

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $3,339 million (1999: $3,178 million) at a weighted average interest rate of 11.17% (1999: 11.67%). These debentures mature at various dates from May 9, 2000 to March 10, 2020, with interest rates varying between 5.61% and 17.51%. These debentures

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

21. Taxpayer-Supported Debt—Continued

are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, $257 million Canada Pension Plan debentures were issued. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces.

Balances include 5.40% debentures, due December 4, 2026, totalling $40 million (1999: $40 million). The holders have a put option which, if exercised, would result in the bond maturing on December 4, 2002. If the option is not exercised, the bond will be redeemed for $50 million (1999: $50 million) on December 4, 2026, and the coupon rate on the bond will be 7.00% for the period December 5, 2002 to December 4, 2026.

Balances include 5.45% debentures, due August 17, 2028, totalling $200 million (1999: $200 million). The holders have a put option which, if exercised, would result in the bond maturing on August 17, 2005. If the option is not exercised, the debenture will mature on August 17, 2028, and the effective rate on the bond will be 5.62% for the period August 17, 2005 to August 17, 2028.

Balances include 5.86% debentures due June 18, 2029, totalling $250 million (1999: nil). The holders have a put option which, if exercised, would result in the bond maturing on June 19, 2006. If the option is not exercised, the debenture will mature on June 18, 2029.

Balances include British Columbia Savings Bonds totalling $930 million (1999: $1,174 million) maturing at dates from October 15, 2001 to October 15, 2006, and with an effective rate of 4.90% are redeemable at par by the holder each April 15 and October 15 prior to maturity.

Redeemable by the province

Issues totalling $210 million (1999: $85 million) with effective rates ranging from 4.91% to 5.26% are redeemable at par at the province's option on dates ranging from July 10, 2000 to December 14, 2010.

Defeasances

At March 31, 2000, sufficient securities had been set aside in an irrevocable trust to satisfy the scheduled interest and principal payment requirements of $1,313 million (1999: $1,487 million). The related debt is considered extinguished for financial reporting purposes.

Aggregate payments for the next five years to meet sinking fund and retirement provisions are:

	In Millions Canadian Dollar
2001	1,692
2002	1,473
2003	1,698
2004	1,216
2005	1,309

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

22. Self-Supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Foreign Currencies[2]	2000 Canadian Dollar Total	1999 Canadian Dollar Total
Short-term promissory notes	2000						1,721
	2001	587	1,183			1,770	
Notes, bonds and debentures	2000						956
	2001	25	100			125	125
	2002	404				404	418
	2003		407			407	422
	2004	300	291			591	602
	2005	388	363	135		886	530
	2005–2010	1,547	200	94	150	1,991	1,481
	2010–2015	400				400	465
	2015–2020						12
	2020–2025	1,296				1,296	1,282
	2025–2030	650	727			1,377	905
	2030–2035						
	2035–2040	50	436			486	503
Total debt issued at face value		**5,647**	**3,707**	**229**	**150**	9,733	9,422
Sinking funds[3]						(923)	(867)
Unamortized discount						(99)	(52)
Total self-supported debt						**8,711**	**8,503**

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2000	6.92	
1999		6.64

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[1] The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 23 (Risk Management and Derivative Financial Instruments).

[2] Foreign currencies include: $2,561 million US ($3,707 million Canadian); 17,000 million Japanese yen ($229 million Canadian); 637 million French Francs ($150 million Canadian).

[3] Sinking funds at March 31, 2000, totalling $401 million US (1999: $371 million US) act as a natural hedge of the US dollar debentures and short-term promissory notes.

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $341 million (1999: $354 million) at a weighted average interest rate of 11.10% (1999: 10.92%). These debentures mature at various dates from July 10, 2004 to June 9, 2009, with interest rates varying between 9.62% and 14.06%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, no Canada Pension Plan debentures were issued for

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

22. Self-Supported Debt—Continued

self-supported debt. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces.

Balances include a $200 million US (1999: $200 million US) note with an effective rate of 6.04% maturing January 15, 2004. This note was translated at the exchange rate prevailing at year-end. The bond holder or the issuer may redeem the note on any interest payment date on thirty days' notice.

Aggregate payments for the next five fiscal years to meet sinking fund and retirement provisions are:

	In Millions Canadian Dollar
2001	178
2002	408
2003	413
2004	549
2005	844

23. Risk Management and Derivative Financial Instruments

The province borrows funds in both domestic and foreign capital markets, and manages its existing debt portfolio to achieve the lowest debt costs within specified risk parameters. As a result, the province is exposed to risks associated with interest rate fluctuations and foreign exchange rate fluctuations. In accordance with risk management policy guidelines set by the Risk Committee of the Ministry of Finance and Corporate Relations, the province uses a variety of derivative financial instruments to hedge exposure to these risks.

Derivatives used by the province include interest rate swaps, currency swaps, forward exchange contracts, forward rate agreements, and options. A derivative instrument is a financial contract with a financial institution or counterparty which is applied to effect a hedge on interest rate or foreign exchange exposure contained in the underlying provincial debt instrument. A derivative derives value from the impact of market changes on the underlying hedged debt instrument. All derivative instruments entered into by the province are recorded off-balance sheet, which is consistent with the Canadian Institute of Chartered Accountants' accounting guidelines for non-speculative hedge instruments.

The table on the following page presents a maturity schedule of the province's derivatives, by type, outstanding at March 31, 2000, based on the notional amounts of the contracts.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

23. Risk Management and Derivative Financial Instruments—Continued

Taxpayer–supported Debt

In Millions

Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Forward Foreign Exchange Contracts	Advanced Rate Setting Agreements	Total
2001	621	85	125		831
2002	197	100			297
2003	234	515			749
2004	410	6			416
2005	585	95			680
6–10 years	2,297	2,037			4,334
Over 10 years	950	831			1,781
Total	**5,294**	**3,669**	**125**	**0**	**9,088**

Self–supported Debt

In Millions

Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Forward Foreign Exchange Contracts	Advanced Rate Setting Agreements	Total
2001	100		2		102
2002		300			300
2003		833			833
2004					
2005	568				568
6–10 years	444	911			1,355
Over 10 years		852			852
Total	**1,112**	**2,896**	**2**	**0**	**4,010**

Interest rate risk

Interest rate risk is the risk that the province's debt servicing costs will fluctuate due to changes in interest rates. The province uses derivative contracts to manage interest rate risk by exchanging a series of interest payments, and assuming either a fixed or floating rate liability to a counterparty, based on the notional principal amount. Derivatives allow the province to alter the proportion of its debt held in fixed and floating rate form to take advantage of changes in interest rates.

The government's current policy guidelines, with respect to the provincial government direct debt portfolio, allow floating rate debt exposure up to 45.00% of net debt. At March 31, 2000, floating rate debt exposure was 35.56% (1999: 35.70%) of net debt.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

23. Risk Management and Derivative Financial Instruments—Continued

Under current policy guidelines for British Columbia Hydro and Power Authority (BC Hydro), the maximum floating rate debt exposure is 40.00% of net debt. At March 31, 2000, floating rate debt exposure for BC Hydro was 29.50% (1999: 38.50%) of net debt.

Foreign exchange risk

Foreign exchange risk is the risk that the province's debt servicing costs and principal payments will fluctuate due to changes in foreign exchange rates. The province uses derivative contracts to hedge foreign exchange risk by converting foreign currency principal and interest cash flows into Canadian dollar cash flows. Within specified limits set by policy, the province and provincial corporations may assume only unhedged exposure to US dollars and Japanese yen.

The government's current policy guidelines, with respect to the provincial government direct debt portfolio, allow unhedged foreign debt exposure up to 10.00% of net debt. At March 31, 2000, unhedged foreign debt exposure, in US dollars and Japanese yen, was 7.46% (1999: 5.20%) of net debt.

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 36.00% of net debt. At March 31, 2000, 34.70% (1999: 35.30%) of net debt was in the form of unhedged foreign debt in US dollars.

Credit risk

Credit risk is the risk that the province will incur financial loss due to a counterparty defaulting on its financial obligation to the province. In accordance with the government's policy guidelines, the province reduces its credit risk by dealing with only highly rated counterparties. The province also establishes limits on individual counterparty credit exposures and monitors these exposures on a regular basis.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

24. Net Equity (Deficiency)

	In Millions	
	2000	1999
	$	$
Net deficiency—beginning of year as previously reported[1]		(10,398)
Adjustments made to 1998/99 net deficiency due to changes in accounting treatment:		
Capitalization of highway infrastructure and other capital assets[2]		5,646
Accounting of pension expenses (Note 1(e))		92
Capitalization of inventory for the Small Business Forest Enterprise Program[3]		91
Accounting of post–employment benefits by British Columbia Railway Company[4]		(35)
Adjustments made to 1998/99 net deficiency due to error corrections:		
Accounting of payments recovered from trust administration[5]		(14)
Value of 1998/99 capitalized assets and miscellaneous items[6]		(8)
Net deficiency—beginning of year as restated[1]	(4,992)	(4,626)
Prepaid capital advance adjustment, restated[7]		637
Surplus (deficit) for the year[1]	52	(1,003)
Net deficiency—end of year	**(4,940)**	**(4,992)**

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[1] Net deficiency has been restated to give retroactive application to the changes in accounting treatment and correction of errors. The total impact of these changes has the effect of decreasing the 1998/99 opening net deficiency by $5,772 million from $10,398 million to $4,626 million and decreasing deficit for the year by $216 million from $1,219 million to $1,003 million.

[2] Highway infrastructure and specialized equipment were capitalized in 1999/00 as part of the phased–in approach to the capitalization of tangible capital assets. This change has the effect of increasing the 1998/99 tangible capital assets by $5,670 and decreasing the 1998/99 deficit for the year by $24 million.

[3] The Small Business Forest Enterprise Program has been expensing costs associated with the development of timber it will be selling through this program. The amounts are a direct cost of sales and should be associated with the subsequent revenue receipts. A correcting entry was made this year to record $112 million of these costs as inventory. As a result, net deficiency at April 1, 1998, decreased by $91 million and the 1998/99 net operating expense was reduced by $21 million.

[4] In 1999/00, British Columbia Railway Company changed its accounting policy to comply with the new Canadian Institute of Chartered Accountants' accounting standard for post–employment benefits. This change has the effect of decreasing the 1998/99 equity in self–supported Crown corporations and agencies by $37 million and increasing the 1998/99 deficit for the year by $2 million.

[5] In 1999/00, an adjustment was made to correct the accounting of payments recovered from trust administration. These payments were recorded as revenue in error and should be recognized as deferred revenue. This adjustment has the effect of increasing the 1998/99 deferred revenue by $14 million with no impact on the 1998/99 deficit for the year.

[6] In 1999/00, adjustments were made to correct the value of certain capital assets. These adjustments have the effect of decreasing the 1998/99 tangible capital assets by $30 million, increasing accounts receivable by $4 million, decreasing accounts payable by $3 million and increasing 1998/99 deficit for the year by $15 million.

[7] In 1998/99, an adjustment of $736 million was required for (a) the release of certain debts owed to the province and to establish the unamortized prepaid capital advances provided to specified entities for capital asset acquisitions; and (b) the adoption of the new prepaid capital advance policy by the Health Facilities Association of British Columbia. This adjustment was calculated incorrectly. The correction has the effect of reducing the 1998/99 prepaid capital advance adjustment by $99 million from $736 million to $637 million.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

25. Net Liabilities

	In Millions 2000 $	 1999 $
Calculation of net liabilities:		
Total assets	34,200	32,077
Prepaid capital advances	(6,517)	(6,138)
Tangible capital assets	(10,217)	(9,771)
Financial assets	17,466	16,168
Liabilities	39,140	37,069
Net liabilities—March 31	**21,674**	**20,901**
Net liabilities represented by:		
Prepaid capital advances	6,517	6,138
Tangible capital assets	10,217	9,771
Net deficiency	4,940	4,992
Net liabilities—March 31	**21,674**	**20,901**
Reconciliation of opening to closing net liabilities:		
Net liabilities—April 1	20,901	19,667
Deficit (surplus)—expense basis	(52)	1,003
Impact of prepaid capital advances during the year	379	483
Impact of tangible capital assets during the year	446	(252)
Net liabilities—March 31	**21,674**	**20,901**

The net liabilities calculation uses the expenditure basis of accounting which expenses tangible capital assets and prepaid capital advances in the year of acquisition.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

26. Contingencies and Commitments

(a) Guaranteed Debt

Guaranteed debt as at March 31, 2000, totalled $468 million (1999: $472 million). *See* Statement of Guaranteed Debt on page 62 for details.

(b) Contingent Liabilities

(i) Litigation and Other Claims

The government is a defendant in legal actions and is involved in matters such as expropriation compensation disputes and tax assessment appeals. These matters may give rise to future liabilities.

These potential liabilities are accrued when it is likely that a liability exists and the amount of the liability can be reasonably estimated on an individual or portfolio basis (*see* Note 16—Other accrued estimated liabilities).

The government has contingent liabilities in respect of the following summary of matters where the estimated or known claim is or exceeds $100,000 and is net of accrued amounts:

	In Millions	
	2000	1999
	$	$
Timber harvesting rights disputes	237	
Expropriation disputes	62	49
Contract disputes	59	43
Damages to persons or property	29	74
Property access disputes	23	20
Tax disputes	18	32
Motor vehicle accidents	9	16
Mineral rights disputes		150
Negligence and miscellaneous	15	12
	452	**396**

On March 28, 1998, the federal government announced the establishment of a $1.1 billion fund to compensate Hepatitis C victims who were infected as a result of blood transfusions between 1986 and 1990. The value of the settlement includes payments of $1.1 billion plus a contingent liability of $18 million for the Red Cross and interest accrued on these balances as of April 1, 1998. The federal government will contribute $800 million and the provincial and territorial governments will contribute $300 million. A liability has been accrued based on the estimated costs of future payments for claims. The outcome of claims may exceed the accrued amount but this additional exposure cannot be determined with certainty.

(ii) Other Contingent Liabilities

The government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in the guaranteed debt note above.

Under current pension agreements, the government is responsible for payment of pensioners' Medical Services Plan and Extended Health Care premiums, which are recorded when due.

The government is responsible for the environmental clean up of numerous contaminated sites in the province. A liability has been recorded based upon current estimated clean up costs for specific sites; however, it is not possible to determine the amount of additional liability with respect to sites yet to be evaluated.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

26. Contingencies and Commitments—Continued

The Insurance Corporation of British Columbia (the Corporation) has settled some claims which requires the Corporation to provide claimants with periodic payments, usually for a lifetime. The Corporation has purchased annuities from approved life insurance companies to make these payments. The list of approved insurance companies is determined by ongoing analysis of total assets, credit rating reports, and past service history. The gross amounts of these settlements at December 31, 1999, is approximately $460 million (December 31, 1998: $400 million). In the event a life insurance company fails in this obligation, the Corporation remains responsible to continue the payments.

(iii) Aboriginal Land Claims

The absence of treaties in most of British Columbia has resulted in a number of outstanding aboriginal land claims across the province. The provincial position is that these claims should be resolved through negotiation, not litigation. Most First Nations agree that the negotiation of claims is the better way to resolve this issue.

A formal process for treaty negotiations in British Columbia has been agreed to amongst the province, Canada and the First Nations Summit. Negotiations commenced in 1994. The province anticipates that these negotiations will result in modern–day treaties defining the boundaries and nature of First Nations treaty settlement lands and rights and ensure a more stable environment for resource development in British Columbia.

The British Columbia Treaty Commission facilitates treaty negotiations under a six–stage negotiation process. As of March 31, 2000, there were 42 active treaty tables in the process representing two–thirds of the aboriginal people in British Columbia. The Sechelt Indian Band was in the final negotiation stage; thirty–six tables were in the Agreement in Principle stage of negotiations and five were in the Framework Agreement stage.

When final treaty agreements are ratified, the provincial cost of treaties is recorded in the Public Accounts. Costs are amortized over the same period as the period of capital transfers established in final agreements.

The Nisga'a treaty was given royal assent by the federal government on April 13, 2000. The provincial cost of the Nisga'a treaty has been recorded and will be amortized over 15 years.

If a final treaty is negotiated which contains the same terms as the Sechelt Agreement in Principle, Sechelt Treaty Land would amount to approximately 1,988 hectares. The province would transfer $4.2 million in capital transfers over a number of years.

Since the Supreme Court of Canada decision on December 11, 1997 of Delgamuukw v. Her Majesty the Queen in Right of British Columbia and Attorney General of Canada there has been an increase in cases involving aboriginal rights.

The Delgamuukw case itself set out a framework for analyzing aboriginal title but did not find that the Gitxsan and Wet'suwet'en First Nations held aboriginal title. Instead, the court referred the matter back for a new trial. At this time, the Gitxsan and Wet'suwet'en have taken no steps to initiate that action.

Several First Nations have commenced litigation claiming aboriginal title over their traditional lands and/or challenging provincial approvals regarding resource extraction on those lands. There are also several cases, which challenge the province's exclusive ownership of roads that traverse reserves and seek compensation for the use of those roads. The result of these actions is not determinable at this time. In one case, the court decided that the provincial government is in a fiduciary relationship with First Nations and is under a legal duty to negotiate in good faith. This result means the British Columbia Treaty Process is subject to judicial supervision. The case is under appeal.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

26. Contingencies and Commitments—Continued

(c) UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date–sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

(d) COMMITMENTS

The government has ongoing operational and capital commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and properties, and management of natural resources. In addition, the government normally contracts out construction or maintenance of its roads, bridges and buildings. All these ongoing operational and capital commitments are detailed in the Estimates published yearly and are not repeated in this note. Any significant non–operating commitments (less than five years duration costing more than $50 million) and their completion costs would be detailed in this note. No significant non–operating commitments existed as at March 31, 2000.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

27. Taxation Revenue

	In Millions	
	2000	1999
	$	$
Personal income	5,839	5,423
Corporation income	943	1,102
Social service	3,347	3,222
Property	1,413	1,438
Other	2,192	2,325
	13,734	13,510

See notes at end of the Schedule of Net Revenue by Source on page 80 for additional information on taxation revenue.

28. Expense by Group Account Classification

	In Millions	
	2000	1999
	$	$
Grants and contributions	16,733	16,457
Salaries and benefits	2,074	2,347
Operating costs	2,143	2,289
Amortization	478	551
Interest[1]	1,769	1,970
Other[1]	1,345	769
	24,542	24,383

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[1] For 1999/00, interest expense of $675 million (1999: $395 million) is included in Other.

29. Expense Due to Valuation Allowances

	In Millions	
	2000	1999
	$	$
Accounts receivable	48	35
Tangible capital assets	302	48
Investments	36	3
Inventories	6	
Loans, advances and mortgages receivable		4
	392	90

These amounts are included in Other in Note 28 and represent the writedown of assets in the above categories.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

30. Comparison of Planned and Actual Results

In Millions

	2000						1999
	Revenue		Expense		Net		Net
	Budget[1] $	Actual $	Budget[1] $	Actual $	Budget[1] $	Actual $	Actual $
Consolidated Revenue Fund	20,155	21,846	21,045	22,200	(890)	(354)	(281)
Health sector	162	184	161	182	1	2	(2)
Education sector	72	71	72	71			1
Natural resources and economic development sector	492	726	799	782	(307)	(56)	(265)
Transportation sector	723	962	713	1,237	10	(275)	(107)
Social services sector	228	228	225	227	3	1	6
Other sector	633	623	571	571	62	52	53
Adjustments[2]		(46)		(728)		682	(408)
		24,594		24,542		52	(1,003)

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[1] Budget numbers for Crown corporations and agencies are based on information provided by those organizations.

[2] Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions that occurred between sectors, within sectors, and between sectors and the Consolidated Revenue Fund. Also includes the decrease in unremitted earnings in self-supported Crown corporations and agencies of $190 million (1999: increase of $95 million).

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

31. Amounts Held in Trust and Administered by the Province

	In Millions	
	2000	1999
	$	$
Superannuation, pension and long-term disability funds[1,2]		
—administered by the Superannuation Commission	40,971	35,551
Sinking funds[1,5]		
—administered by British Columbia Investment Management Corporation (BCIMC)	4,902	4,746
Defeased trust funds[3,5]		
—administered by BCIMC	1,270	1,469
Investment funds of non-consolidated entities[4]		
—administered by BCIMC	207	119
—administered by BCIF Management Ltd	25	21
Public Trustee and Official Administrators		
—administered by government officials	596	588
Supreme, Provincial and County Court (Suitors' Funds)		
—administered by the Courts	27	27
Workers' Compensation Board of British Columbia[1,2,4]	7,551	6,958
Other trust funds		
—administered by various government officials	85	73
	55,634	**49,552**

Trust funds include amounts held and administered in trust, over which the province has no power of appropriation.

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[1] *See* the Trust Funds Financial Statements available on the Ministry of Finance and Corporate Relations' web site for the audited financial statements of superannuation and pension funds, the Workers' Compensation Board of British Columbia and most entities whose sinking funds are administered by BCIMC.

[2] The amounts for six of the superannuation and pension funds totalling $28,017 million (1999: $24,536 million) and for the Workers' Compensation Board of British Columbia (excluding the Workers' Compensation Board Superannuation Plan), have been taken from these funds' audited financial statements which have a different fiscal year-end than these financial statements.

[3] Defeased trust funds represent investments set aside to repay outstanding term debt and related interest payments. These defeased debts have been removed from the Balance Sheet of each taxpayer-supported and self-supported Crown corporation and agency and are considered extinguished for financial reporting purposes.

[4] Includes assets and liabilities not administered by BCIMC.

[5] Sinking funds include $3,800 million (1999: $3,703 million) and defeased trust funds include $1,042 million (1999: $1,175 million) held by BCIMC for the repayment of direct operating debt of the province.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2000—Continued

32. Pension–related Expense Recovery

The total pension–related expense was a recovery of $288 million (1999: $196 million). This consisted of the following components: current period benefit costs of $486 million (1999: $445 million); prior period cost of plan amendment of $142 million (1999: nil); recovery of amortization of estimation adjustments of $217 million (1999: $136 million); recovery of employee and external employer contributions of $720 million (1999: $603 million); investment earnings on surplus of $74 million (1999: nil); and, cost of financing unfunded pension liability of $95 million (1999: $98 million).

The total pension–related expense for the Public Service Pension Plan was a recovery of $16 million (1999: expense of $73 million). This consisted of the following components: current period benefit costs of $171 million (1999: $130 million); prior period cost of plan amendment of $142 million (1999: nil); recovery of amortization of estimation adjustments of $138 million (1999: $57 million); recovery of employee and external employer contributions of $117 million (1999: nil); and, investment earnings on surplus of $74 million (1999: nil).

The total pension–related expense for the Municipal Superannuation Plan was a recovery of $198 million (1999: $198 million). This consisted of the following components: current period benefit costs of $167 million (1999: $167 million); recovery of amortization of estimation adjustments of $51 million (1999: $51 million); and, recovery of employee and external employer contributions of $314 million (1999: $314 million).

The total pension–related expense for the Teachers' Pension Plan was a recovery of $74 million (1999: $71 million). This consisted of the following components: current period benefit costs of $148 million (1999: $148 million); recovery of amortization of estimation adjustments of $28 million (1999: $28 million); recovery of employee and external employer contributions of $289 million (1999: $289 million); and, cost of financing unfunded pension liability of $95 million (1999: $98 million).

33. Significant Events

The following events had a significant financial impact on the province in fiscal year 2000:

(a) British Columbia Ferry Corporation has written down its assets by $240 million to reflect the estimated carrying value of the fast ferries. British Columbia Railway Company has written down its rail assets by $617 million because management determined there would not be sufficient future cash flow from certain of its rail segments to recover the net carrying value of the assets. The Vancouver Trade and Convention Centre Authority is in the process of winding up its operations as a result of the province cancelling the construction of the new convention centre on October 5, 1999. This resulted in the Authority writing down its assets by $62 million. The total impact of these events on the Summary Financial Statements is an increase in net deficit of $919 million

(b) Debt in the amount of $1,080 million owed by British Columbia Ferry Corporation to the Consolidated Revenue Fund was forgiven. There is no impact from this transaction on the Summary Financial Statements.

34. Comparatives

Certain of the comparative figures for the previous year have been restated to conform with the current year's presentation. These restatements have had no effect on the operating results as previously reported except as specifically noted.

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2000

TAXPAYER–SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS

Consolidated Revenue Fund

Health Sector
- B.C. Health Care Risk Management Society
- British Columbia Health Research Foundation
- Canadian Blood Services[1]
- Forensic Psychiatric Services Commission[2]
- Health Facilities Association of British Columbia

Education Sector
- Industry Training and Apprenticeship Commission
- Private Post–Secondary Education Commission[3]

Natural Resources and Economic Development Sector
- 577315 British Columbia Ltd[2,4]
- 580440 B.C. Ltd[5]
- B.C. Games Society
- B.C. Pavilion Corporation
- B.C. Society for the Distribution of Gaming Revenue to Charities
- British Columbia Assets and Land Corporation
- British Columbia Enterprise Corporation
- British Columbia Securities Commission
- British Columbia Trade Development Corporation
- Columbia Basin Trust
- Creston Valley Wildlife Management Authority Trust Fund
- Discovery Enterprises Inc
- Duke Point Development Limited
- Fisheries Renewal BC
- Forest Renewal BC
- Homeowner Protection Office
- Okanagan Valley Tree Fruit Authority
- Oil and Gas Commission
- Pacific National Exhibition
- Science Council of British Columbia
- Tourism British Columbia
- Vancouver Trade and Convention Centre Authority

Transportation Sector
- BC Transportation Financing Authority
- British Columbia Ferry Corporation
- British Columbia Transit
- Rapid Transit Project 2000 Ltd
- Victoria Line Ltd

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2000—Continued

TAXPAYER–SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS—CONTINUED

Social Services Sector

B.C. Community Financial Services Corporation
British Columbia Housing Management Commission
Provincial Rental Housing Corporation

Other Sector

B.C. Festival of the Arts Society
British Columbia Arts Council
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Heritage Trust
British Columbia Systems Corporation
First Peoples' Heritage, Language and Culture Council
Legal Services Society
Organized Crime Agency of British Columbia Society[2]

SELF—SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ENTERPRISES)
RECORDED ON A MODIFIED EQUITY BASIS

552513 British Columbia Ltd[6]
BCIF Management Ltd
British Columbia Hydro and Power Authority
British Columbia Investment Management Corporation[2]
British Columbia Liquor Distribution Branch
British Columbia Lottery Corporation
British Columbia Railway Company
Columbia Power Corporation
Insurance Corporation of British Columbia
Provincial Capital Commission

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[1] This organization reflects a government partnership amongst Canadian provinces and is proportionally consolidated based upon the province's share (14.9%) of the total provincial contributions to the partnership.

[2] These organizations were established during the current year.

[3] This organization is included in the Summary Financial Statements starting in the current year because it meets the definition of a fully consolidated entity.

[4] This company has investments in Western Star Trucks Holdings Ltd.

[5] This company provides funding to the Vancouver Trade and Convention Centre Authority which, in turn, was constructing the Vancouver Trade and Convention Centre.

[6] This company owns shares in Skeena Cellulose Inc.

Summary Financial Statements
Balance Sheet by Sector
as at March 31, 2000

In Millions

	CRF[1]	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments[2]	Total
Assets	$	$	$	$	$	$	$	$	$
Cash and temporary investments	885	32	3	523	51	28	27	(14)	1,535
Warehouse Program investments	1,320								1,320
Accounts receivable	2,534	1		29	17	5	23	(263)	2,346
Inventories	167	10		9	59				245
Due from the Province of British Columbia		21		211	22	6	22	(282)	
Due from other governments	241				22	6	2		271
Due from self-supported Crown corporations and agencies	417								417
Equity in self-supported Crown corporations and agencies	715							2,030	2,745
Loans, advances and mortgages receivable	294			50	2	56			402
Other investments	166			132	4	13			315
Loans for purchase of assets, recoverable from agencies	10,298							(2,768)	7,530
Other assets	276	13		1	47	9	13	(19)	340
Prepaid capital advances	8,021	519						(2,023)	6,517
Tangible capital assets	551	25		169	8,277	338	857		10,217
	25,885	**621**	**3**	**1,124**	**8,501**	**461**	**944**	**(3,339)**	**34,200**

Summary Financial Statements
Balance Sheet by Sector
as at March 31, 2000—Continued

In Millions

Liabilities and Net Equity	CRF[1]	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments[2]	Total
	$	$	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	2,510	24		104	214	35	80	(96)	2,871
Due to other governments	91				13		1		105
Due to Crown corporations, agencies and funds	312	12	1	3		12		(258)	82
Due to the Province of British Columbia		16		142	68			(226)	
Deferred revenue	394	544	1	11	1,485	92	20	(2,023)	524
Unfunded pension liabilities	2,053								2,053
Taxpayer–supported debt	24,608			82	2,044	205	622	(2,767)	24,794
Self–supported debt	8,711								8,711
	38,679	596	2	342	3,824	344	723	(5,370)	39,140
Net equity (deficiency)	(12,794)	25	1	782	4,677	117	221	2,031	(4,940)
	25,885	**621**	**3**	**1,124**	**8,501**	**461**	**944**	**(3,339)**	**34,200**

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[1] Consolidated Revenue Fund.

[2] Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

Summary Financial Statements
Statement of Operations by Sector
for the Fiscal Year Ended March 31, 2000

In Millions

	CRF[1]	Health	Education	Natural Resources	Transportation	Social Services	Other	Adjustments[2]	Total
Revenue	$	$	$	$	$	$	$	$	$
Taxation	13,378			22	249		60	25	13,734
Natural resources	2,517			302				2	2,821
Fees and licences	1,548		1	39	372			5	1,965
Investment earnings	60	1		53		5	1	78	198
Miscellaneous	280	27		164	52	35	128	(120)	566
Contributions from the provincial government/self-supported Crown corporations and agencies	1,454	178	70	105	59	99	432	(1,102)	1,295
Contributions from the federal government	2,609				22	73			2,704
Recoveries								1,311	1,311
Total revenue	21,846	206	71	685	754	212	621	199	24,594
Expense									
Grants and contributions	16,959	26	5	123	17	125	11	(533)	16,733
Salaries and benefits	1,541	45	6	66	292	20	111	(7)	2,074
Operating costs	1,947	66	3	341	193	35	340	(782)	2,143
Amortization	102	1		8	318	6	43		478
Interest	835			6	133	13	59	723	1,769
Other	3,335	43	57	130	293	17	6	(2,536)	1,345
Recoveries	(2,519)							2,519	
Total operating expense	22,200	181	71	674	1,246	216	570	(616)	24,542
Surplus (deficit) for the year 1999/00	**(354)**	**25**	**0**	**11**	**(492)**	**(4)**	**51**	**815**	**52**
Surplus (deficit) for the year 1998/99	**(281)**	**9**	**0**	**(254)**	**(554)**	**(10)**	**50**	**37**	**(1,003)**

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[1] Consolidated Revenue Fund.

[2] Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors, and between sectors and the Consolidated Revenue Fund.

Statement of Self–Supported Crown Corporations and Agencies
Summary of Financial Position
as at March 31, 2000

In Millions

	Utility	Insurance	Liquor	Transpor–tation	Finance	Natural Resources	2000 Total	1999 Total
Assets	$	$	$	$	$	$	$	$
Cash and temporary investments	15	5,605	1	47	96	5	5,769	5,829
Accounts receivable	456	155	14	77	47	58	807	828
Inventories	77		63	28		69	237	229
Long–term investments	194					0	194	58
Tangible capital assets	9,392	141	13	1,184	26	156	10,912	11,314
Other assets	760	73	1	51	7	3	895	1,041
	10,894	**5,974**	**92**	**1,387**	**176**	**291**	**18,814**	**19,299**
Liabilities								
Accounts payable and accrued liabilities	739	4,176	89	175	102	51	5,332	5,140
Deferred revenue	977	1,323		26		2	2,328	2,473
Due to the Province of British Columbia	343				74		417	401
Long–term debt to the province	6,753			606		32	7,391	7,843
Other long–term debt	304		3	45		249	601	557
	9,116	5,499	92	852	176	334	16,069	16,414
Equity								
Investment by the Consolidated Revenue Fund	252			258			510	460
Unremitted earnings—end of year	1,526	475		277		(43)	2,235	2,425
	1,778	475		535		(43)	2,745	2,885
Total liabilities and equity	**10,894**	**5,974**	**92**	**1,387**	**176**	**291**	**18,814**	**19,299**

Statement of Self–Supported Crown Corporations and Agencies
Summary of Results of Operations and Statement of Equity for the Fiscal Year Ended March 31, 2000

In Millions

	Utility[1]	Insur–ance[2]	Liquor[3]	Transpor–tation[4]	Finance[5]	Natural Resources[6]	2000 Total	1999 Total
	$	$	$	$	$	$	$	$
Revenue	3,472	2,966	1,671	479	1,425	367	10,380	9,434
Expense	2,923	2,776	1,054	1,062	900	370	9,085	7,914
Net earnings of self–supported Crown corporations and agencies	549	190	617	(583)	525	(3)	1,295	1,520
Contributions paid to the Consolidated Revenue Fund	(343)		(617)		(416)		(1,376)	(1,348)
Adjustments to contributions[7]					(109)		(109)	(77)
Increase in unremitted earnings in self–supported Crown corporations and agencies	206	190		(583)		(3)	(190)	95
Unremitted earnings—beginning of year	1,320	285		860		(40)	2,425	2,380
Restatement of prior years' unremitted earnings[8]								(35)
Transfer to consolidated entity[9]								(15)
Unremitted earnings—end of year	1,526	475		277		(43)	2,235	2,425
Investment by the Consolidated Revenue Fund	252			258			510	460
Equity in self–supported Crown corporations and agencies for the year	**1,778**	**475**	**0**	**535**	**0**	**(43)**	**2,745**	**2,885**

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[1] Utility—British Columbia Hydro and Power Authority and Columbia Power Corporation.

[2] Insurance—Insurance Corporation of British Columbia.

[3] Liquor—British Columbia Liquor Distribution Branch.

[4] Transportation—British Columbia Railway Company.

[5] Finance—British Columbia Lottery Corporation, BCIF Management Ltd, and British Columbia Investment Management Corporation.

[6] Natural Resources—552513 British Columbia Ltd and Provincial Capital Commission.

[7] These adjustments are for a number of different items: (a) a $2 million (1999: $5 million) payment to the Consolidated Revenue Fund (CRF) to pay for the Problem Gambling Program which is shown as a recovery by the CRF; (b) $86 million (1999: $68 million) paid to the CRF that was then transferred to the B.C. Society for the Distribution of Gaming Revenue to Charities; (c) a $20 million payment to the Gaming Policy Secretariat which is shown as a recovery by the CRF; (d) a $1 million payment to BC Gaming Commission which is shown as a recovery by the CRF; and (e) the figure for 1999 was adjusted by $4 million due to a restatement of contributions.

[8] This restatement is to record the impact of British Columbia Railway Company's change in accounting treatment for non–pension post–employment benefits.

[9] B.C. Community Financial Services Corporation and British Columbia Assets and Land Corporation were fully consolidated in the 1998/99 Summary Financial Statements as they no longer met the criteria of self–supported Crown corporations and agencies and, therefore, are no longer consolidated using the modified equity basis.

Summary Financial Statements
Statement of Tangible Capital Assets[1]
for the Fiscal Year Ended March 31, 2000

In Millions

	Land	Buildings	Highway Infra–structure[2]	Ferries	Transporta-tion Equip-ment	Computer Hardware /Software	Other[2]	2000 Total	1999 Total
Historical Cost[3]	$	$	$	$	$	$	$	$	$
Opening cost	570	1,892	8,580	1,436	1,593	594	277	14,942	14,985
Inclusion of Crown corporations previously excluded									1
Additions	31	86	481	99	396	129	39	1,261	1,103
Disposals	(1)	(14)	(20)	(20)	(3)	(55)	(6)	(119)	(1,147)
Valuation adjustments[4]		(62)		(240)				(302)	
	600	1,902	9,041	1,275	1,986	668	310	15,782	14,942
Accumulated Amortization									
Opening balance		709	2,945	631	353	368	165	5,171	4,962
Amortization expense		79	231	33	23	87	25	478	551
Effect of disposals		(9)	(7)	(9)	(3)	(51)	(5)	(84)	(396)
Valuation adjustments									54
		779	3,169	655	373	404	185	5,565	5,171
Net book value	**600**	**1,123**	**5,872**	**620**	**1,613**	**264**	**125**	**10,217**	**9,771**

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[1] This statement includes assets that are held on capital leases at March 31, 2000, at a net book value totalling $22 million (1999: $23 million) which is comprised of: ferries $21million (1999: $23 million); and computer hardware/software $1 million (1999: nil).

[2] In 1999/00, highway infrastructure and specialized equipment (included in Other) were added to the existing tangible capital asset classes. *See* Note 24 Net Equity (Deficiency) for information relating to the impact of these changes on prior years.

[3] Historical cost includes work–in–progress at March 31, 2000, totalling $916 million (1999: $529 million) which is comprised of: buildings $53 million (1999: $68 million); highway infrastructure $263 million (1999: $198 million); ferries $23 million (1999: $258 million); transportation equipment $518 million (1999: $139 million); computer hardware/software $55 million (1999: $64 million); and specialized equipment $4 million (1999: nil).

[4] Primarily relates to the one–time write–down of the fast ferries.

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2000

Guaranteed debt represents that debt of municipalities and other governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations, which has been explicitly guaranteed or indemnified by the government, under the authority of a statute, as to net principal or redemption provisions.

	In Millions	
	2000	1999
Taxpayer–supported Guaranteed Debt	Net Outstanding[1] $	Net Outstanding[1] $
Municipalities and other local governments:		
Municipal Act debentures	2	3
Subtotal, municipalities and other local governments	2	3
Government Services:		
Homeowner Protection Act loan guarantees	22	3
Subtotal, government services	22	3
Health and education:		
Financial Administration Act student aid loans	43	61
Subtotal, health and education	43	61
Economic development:		
Build BC Act debentures	6	6
Financial Administration Act:		
C.M.A. Parking Association		7
District of Tumbler Ridge	3	3
Feeder Association's Loan Guarantee Program	1	3
Forest Renewal BC	23	28
Miscellaneous guarantees less than $1 million	2	1
Home Mortgage Assistance Program Act mortgages	24	32
Home Mortgage Assistance Program Act second mortgages[2]	4	5
Subtotal, economic development	63	85
Total taxpayer–supported guaranteed debt	130	152

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2000—Continued

	2000	1999
Self-supported Guaranteed Debt	Net Outstanding[1] $	Net Outstanding[1] $
Economic development:		
British Columbia Railway Finance Act capital leases[3]	7	9
Financial Administration Act:		
Skeena Cellulose Inc[3]	156	124
Subtotal, economic development	163	133
Utilities:		
Hydro and Power Authority Act bonds and debentures[3]	192	205
Subtotal, utilities	192	205
Total self-supported guaranteed debt	355	338
Grand total, all guaranteed debt	485	490
Provision for probable payout	(17)	(18)
Net total, all guaranteed debt[4, 5]	**468**	**472**

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[1] Guaranteed debt includes gross principal debt less sinking fund balances, and represents the total amount of contingent liability of the government arising from relevant guarantees. Amounts payable in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the fiscal year-end.

[2] The British Columbia Second Mortgage Program was sold to the Bank of Montreal in June 1989, with the condition that the province will buy back any mortgages which may become uncollectible in future years.

[3] *See* the financial statements of Crown corporations and agencies for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown agencies and for details of derivative financial products.

[4] The government has unconditionally guaranteed the payment of principal and interest for $79 million (1999: $96 million) of debentures issued to the Canada Pension Plan Investment Fund.

[5] Debentures totalling nil (1999: $41 million) have been defeased and are considered extinguished for financial reporting purposes.

appendix d

Excerpts from Debt Statistics 1999/2000

Section I of the Debt Statistics 1999/2000 titled *Province of British Columbia Debt Report* contains the Auditor General's Report on Summary of Provincial Net Debt, Key Indicators of Provincial Debt and Summary of Key Benchmarks.

Report of the Auditor General
# of British Columbia

ON THE
SUMMARY OF PROVINCIAL NET DEBT,
KEY INDICATORS OF PROVINCIAL DEBT, AND
SUMMARY OF KEY BENCHMARKS

To the Legislative Assembly
of the Province of British Columbia

The Government of British Columbia, in its Budget '95 (Report E), presented a debt management plan. In that plan, the Government stated that it will annually provide an audited report on its progress in meeting plan goals and benchmarks.

In Budget '97 (Report C), the Government introduced a financial management plan with new benchmarks, to replace its debt management plan. In Budget '98 (Report C) the Government modified the benchmarks in its financial management plan, and in Budget '99 (Report B) it introduced a 5-year fiscal planning framework as a focus of its financial management plan, and again modified benchmarks.

Each year since 1995, at the Minister of Finance and Corporate Relations' request, the Auditor General has provided a special report to the Legislative Assembly on the completeness and accuracy of the three debt related statements prepared by the Government. These statements are the Summary of Provincial Net Debt, Key Indicators of Provincial Debt, and Summary of Key Benchmarks, through which the Government outlines its management of the provincial debt by comparing the fiscal year's actual results with those of the prior year for provincial debt and its indicators, and to the budgeted indicators and benchmarks.

Consistent with prior years, in these statements, and in budgets, provincial debt includes debt of the government reporting entity as defined by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants but does not include amounts borrowed from private lenders directly by School Districts, Universities, Colleges and Institutes, Public Health Care Organizations and Regional Hospital Districts. For the 1999/2000 fiscal year, the outstanding balance of these excluded borrowings amounted to $375 million ($383 million for 1998/1999).

The preparation of the three statements named above is the responsibility of the Government. My responsibility is to express an opinion on the completeness and accuracy of such information based on the above definition of provincial debt.

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Scope

I examined financial and other information included in the statements titled Summary of Provincial Net Debt as at March 31, 2000, Key Indicators of Provincial Debt for the Fiscal Year ended March 31, 2000, and Summary of Key Benchmarks for the Fiscal Year ended March 31, 2000 in accordance with procedures I considered necessary in the circumstances. These procedures include the verification of financial information extracted from financial statements audited by myself or by other auditors whose work I have reviewed on a test basis. They also include confirming or assessing the reasonableness of the statistical data used by the government on the Province's population and gross domestic product; however, I did not perform an audit of such data. I also assessed the appropriateness of the calculation and presentation of the information contained in the statement.

Opinion

As a result of applying these procedures, I am of the opinion that the information included in the statements titled *Summary of Provincial Net Debt as at March 31, 2000, Key Indicators of Provincial Debt for the Fiscal Year ended March 31, 2000*, and *Summary of Key Benchmarks for the Fiscal Year ended March 31, 2000* are, in all significant respects, consistent with the sources from which they are extracted, and are presented in a manner consistent with the requirements of the fiscal planning framework.

Disclaimer

I have not been associated with the development of the Government plans to manage provincial debt or the five-year fiscal planning framework, nor have I audited them. The planning is the responsibility of the government. My responsibility is limited to examining the information included in the statements specifically referred to in the above scope paragraph, based on the definition of provincial debt as outlined in the preamble to this report.

Wayne Strelioff

Victoria, British Columbia
June 23, 2000

Wayne Strelioff, CA
Auditor General

OFFICE OF THE
Auditor General
of British Columbia

Summary of Provincial Net Debt[1] as at March 31, 2000

	In Millions	
	2000	1999
Taxpayer–supported Debt	$	$
Provincial government direct operating[2]	13,833	12,190
Education[3]		
Schools	3,609	3,261
Post–secondary institutions	1,369	1,336
	4,978	4,597
Health Facilities[3]	1,451	1,282
Highways, ferries and public transit		
BC Transportation Financing Authority	1,843	1,433
British Columbia Ferry Corporation[2]	24	973
British Columbia Transit	79	59
Public transit[3]	952	987
SkyTrain extension[3]	488	133
Rapid Transit Project 2000 Ltd	101	56
	3,487	3,641
Other		
British Columbia Buildings Corporation	615	715
Social housing[4]	205	183
Homeowner Protection Office	32	11
Universities and colleges	130	137
577315 British Columbia Ltd (Western Star Trucks Holdings Ltd)	62	
580440 British Columbia Ltd (Vancouver Trade and Convention Centre)[2]	3	29
Local governments	9	10
Other[5]	119	155
	1,175	1,240
Total taxpayer–supported debt	24,924	22,950
Self–supported Debt		
Commercial Crown corporations and agencies		
British Columbia Hydro and Power Authority	6,945	7,474
British Columbia Railway Company	655	607
552513 British Columbia Ltd (Skeena Cellulose Inc)[6]	280	221
Columbia Basin Power Company[7]	94	94
Liquor Distribution Branch	3	3
	7,977	8,399
Warehouse Borrowing Program	1,320	658
Total self–supported debt	9,297	9,057
Total provincial debt	**34,221**	**32,007**

Key Indicators of Provincial Debt[1] for the Fiscal Year Ended March 31, 2000

	2000		1999
	Budget[8]	Actual	Actual
Debt to Revenue (percent)			
Total provincial	113.9	101.6	102.3
Taxpayer–supported	116.9	100.6	98.6
Debt per Capita ($)			
Total provincial	8,582	8,506	8,006
Taxpayer–supported	6,472	6,195	5,740
Debt to GDP (percent)			
Total provincial	31.7	29.9	28.8
Taxpayer–supported	23.9	21.8	20.7
Interest Bite (cents per dollar of revenue)			
Total provincial	8.7	7.5	7.8
Taxpayer–supported	8.6	7.1	7.4
Interest Costs ($ millions)			
Total provincial	2,640	2,528	2,452
Taxpayer–supported	1,934	1,762	1,723
Interest Rate (percent)			
Taxpayer–supported	7.4	7.4	7.7
Background Information:			
Revenue ($ millions)			
Total provincial	30,489	33,679	31,294
Taxpayer–supported	22,403	24,784	23,285
Total Debt ($ millions)			
Total provincial	34,722	34,221	32,007
Taxpayer–supported	26,184	24,924	22,950
Provincial GDP ($ millions)*	109,540	114,480	110,948
Population (thousands at July 1)**	4,046	4,023	3,998

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*GDP for the year ending in the fiscal year (e.g. GDP for 1999 is used for the fiscal year ending March 31, 2000). GDP for 1999 is a Ministry of Finance and Corporate Relations estimate (GDP numbers were not available from Statistics Canada at the time of publication).

**Population at July 1st within the fiscal year (e.g. population at July 1, 1999, is used for the fiscal year ending March 31, 2000).

Summary of Key Benchmarks for the Fiscal Year Ended March 31, 2000

	2000 Benchmark	2000 Actual
Taxpayer–supported debt as a percent of provincial GDP	22.0 to 27.0[8]	21.8
Taxpayer–supported interest expense per dollar of revenue (cents)	cap of 9.0[9]	7.1

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[1] Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency debt accrued interest is reported in the government's accounts as an account payable. Figures for 1999 provincial net debt and key indicators of provincial debt have been restated to conform with the presentation used for 2000.

[2] Effective March 31, 2000, the provincial government assumed responsibility for the fiscal agency loans of the British Columbia Ferry Corporation ($1,080 million) and 580440 British Columbia Ltd (Vancouver Trade and Convention Centre—$70 million).

[3] Represents government direct debt incurred for capital financing of education and health facilities and public transit infrastructure.

[4] Includes the British Columbia Housing Management Commission and Provincial Rental Housing Corporation.

[5] Includes debt of the British Columbia Assessment Authority, Pacific Racing Association (fiscal agency loans), Victoria Line Ltd., student assistance loans, loans guaranteed to agricultural producers, guarantees issued under economic development assistance programs and the former British Columbia home mortgage assistance and second mortgage programs, and non–guaranteed debt of the Legal Services Society, Pacific National Exhibition, Okanagan Valley Tree Fruit Authority, and Tourism British Columbia.

[6] Although the debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) is considered to be self–supported, future profitability is uncertain due to volatility of world pulp prices and their potential impact on Skeena Cellulose Inc. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.

[7] Columbia Basin Power Company is a joint venture of Columbia Power Corporation and Columbia Basin Trust.

[8] Figures presented in the Budget '99 Reports document.

[9] Benchmark presented in the Budget '98 Reports document was retained by government for fiscal 1999/00.

appendix e

Office of the Auditor General: 2000/01 Reports Issued to Date

Report 1

Fostering A Safe Environment: How the British Columbia School System is Doing

Report 2

Report on the Implementation of the Recommendations of the Budget Process Review Panel

Report 3

Follow-up of Performance and Compliance Reports

Report 4

Management Consulting Engagements in Government

Report 5

Monitoring Credit Unions and Trust Companies in British Columbia

Report 6

Report on Government Financial Accountability for the 1999/2000 Fiscal Year

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